



NOTE OF A MEETING HELD IN THE CHANCELLOR OF THE EXCHEQUER'S ROOM,
H.M. TREASURY ON THURSDAY, 6 AUGUST, 1981

Present:

Chancellor of the Exchequer
 Chief Secretary
 Sir Douglas Wass
 Mr. Burns
 Mr. Downey
 Mr. Byatt
 Mr. Bridgeman
 Mr. Kemp
 Mr. Cassell
 Mr. Dixon
 Mr. Ridley
 Mr. Cropper
 Mr. Hoskyns - No.10
 Mr. Ibbs - CPRS

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UNEMPLOYMENT MEASURES

The meeting had before it a minute dated 5 August by Mr. Downey to which was attached a note on action to improve the working of labour markets and to generate employment.

2. Mr. Downey said that the Treasury paper concentrated largely on ideas, many of them considered before, which were designed to free up the labour market, reduce labour costs or improve incentives to work. Brief notes were included on each of the measures designed to provide a basis for judging which were worth pursuing further.

3. Sir Douglas Wass said that the measures could be regarded as forming the basis for a possible inter-related package designed to improve the supply side of the economy, something which had been neglected in post-war Britain and which would complement the steps which had already been taken to foster small businesses. The basic aim was to make the economy more responsive to price signals and to remove obstacles to competition. It was important to strike a



balance between those measures which would be regarded by the Government's opponents as provocative and those of which they would either approve or in which they would acquiesce. But even so, some political flac was inevitable, since nearly all the measures could be seen as posing a fundamental challenge to the system of labour relations, and the legislation which backed it, going back to the beginning of the century.

4. The Chancellor, commending the paper, said that there was bound to be strong pressure in the new session for positive action to combat unemployment and it was tactically right that the Treasury should be in a position to put forward positive proposals. The aim should be to identify those measures which made political and economic sense and which were cost-effective, but which met the growing pressures for change; pressures which would be heightened and given impetus by Mr. Heseltine's proposals on his return from Merseyside.

5. He had suggested that two areas not covered in the paper should be included in the agenda for discussion; first the idea of a public works programme covering such areas as housing, construction, roads, railways and other infra-structure improvements and secondly, the proposal which had been canvassed in a minute by Mr. Ridley for making a reduction in the National Insurance Surcharge, or some other tax concession, conditional on the average outturn of growth in earnings falling below a certain figure. On the first point, he noted that the paper circulated before the meeting concluded that a public works programmes was not a good way of maximising employment, partly because of the long lag before employment effects came through, and partly because the cost per job tended to be high. Nonetheless it was likely that Mr. Heseltine would be returning with various "pump priming" proposals in this general area and the possibilities would have to be carefully appraised. He suggested that the NIS proposal should be discussed later in the meeting. The Chancellor added that it was important to bear in mind in considering the proposals in the paper the scope for implementing changes on a selective, even experimental basis rather than nationally. This would be an approach similar to that which lay behind the Enterprise



Zones; the aim would be to produce a package or packages which could be taken up by employers and workforce in particular locations.

6. Mr. Hoskyns said that one possibility he had discussed with Alan Walters was of voluntary agreements between employers and employees not to be bound by specified protective legislation and restrictions, for example the rulings of Wages Councils. The idea was that the greater the freedom to contract the better the market would work - and it might be possible for the employer either to pay a premium or to provide employment which he would not otherwise be able to do.

7. In a brief discussion of this proposal, it was doubted whether the economic impact would be significantly great for it to be worth the row it would cause. It would be argued for example that the whole purpose of protective legislation was to prevent employees being exploited, even willingly. There was a limit to which the package of measures as a whole ought to challenge or undermine existing rights, protections and privileges, and with this in mind it seemed more worthwhile to direct the attack elsewhere.

8. Discussion then turned to the proposals listed in Annexes A to E of the paper.

Annex A Action to improve the working of labour markets.

A1 Industrial relations legislation. It was agreed that this was an important area, but it was already under consideration in the context of Mr. Prior's Green Paper on trade union immunities. As Ministerial discussion would take place in the autumn on the basis of representations received, there was no need for separate action at this stage.

A2 A shift towards plant bargaining. There was general agreement with the assessment in the paper, and particularly with the last sentence ("But if the Government were to make the fragmentation of labour markets part of its general drive and publicity, it is possible that progress could be made"). It was noted that there might



be some scope for progress in the public sector, for example the NHS or the Royal Dockyards.

A3 A fighting fund for employers. It was agreed that it would not be appropriate for the Government to seek to sponsor such a fund. The CBI's last effort in this area had got nowhere.

A4 Action to weaken bargaining power of public sector unions. It was noted that these questions were under consideration elsewhere. The likelihood of negotiating viable "no-strike" arrangements at a price worth paying was thought to be slim. Certainly the price in effect paid in those areas where such arrangements obtained (the police and armed forces) was high. However, it might at least be worth considering the idea if the outcome of the Civil Service pay inquiry was a "committed" system. It was agreed that the whole question of the effectiveness of the Government's response to strike action in sensitive or strategic areas should be considered further. Too often the steps to train and equip the armed forces for particular contingencies seemed to be left until the strike action had begun, which was too late for it to be effective. It would be worth suggesting that the Civil Contingencies Unit should be asked to look again at this general question.

A5 Change unfair dismissals procedures. It was noted that following discussion in MSC 14 recently it had been concluded that there was little scope for doing anything in this area which would make a significant difference to the labour market in practice. However it was agreed that greater publicity could be useful, since many employers tended to assume that the rules were more severe than they really were.

A6 Change redundancy pay arrangements. Again this possibility had been recently considered by MISC 14, which had decided against action.

A7 Abolish or restrict wages councils. It was pointed out that overall, abolition of wages councils was unlikely to make a significant



difference, although a change would be psychologically valuable, and would be particularly useful in the case of young people. The Secretary of State for Employment was known to be very reluctant to contemplate change in this area. One possibility might be to seek to require wages councils to take more account of the balance of demand and supply in the labour market in fixing rates of pay. Another would be to provide that the minimum youth wage should not be less than the given percentage of the adult wage. It might be worth considering the ideas in the context of more general legislation to promote employment opportunities, e.g. an Employment Opportunities Act. It was agreed that no move should be contemplated in the areas of sex and race discrimination.

A8 Reform of apprenticeships and skill training. The importance of this area was generally acknowledged; so too was the difficulty of securing the necessary reforms, given union attitudes, particularly towards the apprenticeship system, on the one hand and a short-sightedness of many employers, e.g. on skills training on the other. It was felt that the MSC and industrial training boards were discouraged from serious reform by their desire to keep the co-operation and goodwill of the unions. It was pointed out that the NEDC had a good deal of knowledge and expertise in this area, and that they might be asked for suggestions and ideas. It might be worth airing the question in the Council.

Annex B

B1 Cuts in benefits to the unemployed. It was pointed out that contrary to popular belief the balance between unemployment benefit and wage rates had been moving in the right direction since 1971. Presenting reliable and representative statistics on this question was a problem; and factors like the cost of getting to work had to be taken into account. It was noted that legislative changes such as the removal of earnings related supplement, and the proposal to tax short-term benefits would prove very helpful. So too would the revalorisation of tax thresholds if this were possible were in the next Budget. It was agreed that there was no real scope for further legislative change, but that opportunities should be sought to



change the balance further in the right direction via the tax system.

B2 Redistribute family benefits to those in employment. It was agreed that the point about child benefit - that to increase it would improve the incentive to work because it was paid irrespective of whether the parents in employment - was an important one which should be kept in mind. The case for taxing child benefit might also be worth considering again.

B3 Benefit limit or wage stop. This idea, which had been frequently expressed by Ralph Howell, MP., was attractive but controversial, and the consensus was that it was too provocative to take further.

B4 Extend DHSS checking of fraud and abuse. There was a general feeling, in line with the arguments of Professor Layard, that the area which needed attention was not so much that of fraud and abuse, but the slackness with which the work test was applied in practice. There was some evidence that with increased unemployment less attention was paid to the willingness of those on benefit to take such jobs as were available.

B5 Raise the lower earnings limit. Raising the limit by more than the prices formula might encourage employers to take on more low paid and part-time employees and was felt to be a promising possibility. The main difficulty was that it removed entitlement to benefit.

B6 The Beveridge idea. The link between the idea of only paying unemployment benefit unconditionally for a limited period, and then requiring attendance at a work or training centre, was linked to the idea of improving the work test already discussed. A major difficulty in present circumstances would be finding the work training places or jobs for those subjected to the cut-off. However, a major political attraction of the idea was that it presented an answer to the Len Murray question. This was an area where some form of regional experimentation might be the best way forward - for example it might be possible to design a scheme in Merseyside for youths under 25 involving their employment at work centres in return for a wage set



at or just above the level of unemployment benefit. To make the scheme effective it might be necessary to deny access to benefits of those who refuse to take part.

B7 Removing access of young people to supplementary benefit. It was noted that this was already under consideration and that there were strong arguments for pursuing the possibility further.

B8 Raising the income tax threshold. It was agreed that there was a strong case for seeking to restore or even increase the real value of the basic allowances.

Annex C

C1 In a brief discussion of Professor Meade's proposals, it was pointed out that without a transformed system of pay bargaining in Britain it would be very difficult to make them work. The idea that there could be a binding national consensus in favour of rates of pay set so as to maintain full employment ran into the problem of human nature; however rational the case might be, it was difficult in practice to persuade pay bargainers to give up an immediate gain for themselves as individuals in return for a wider collective benefit. Moreover the lesson of the NEDC meeting on 5 August was that the kind of consensus which Professor Meade admitted was essential to his system did not at present exist. In practice the scheme would be likely to lead straight to the question of trade union immunities since the big unions would sooner or later decide to challenge the arbitral process. However if the scheme served the purpose of convincing waverers that action on trade union immunities was necessary, it might be worth contemplating. Certainly it should be kept on the table.

C2 Tax based incomes policies. This idea was felt to be unattractive though less so than other incomes policies or a pay freeze. A major difficulty was that the effect would be to give money to consumers rather than to the corporate sector.



C3 A pay freeze. There was general agreement with the assessment in the paper.

Annex D

D1 Reducing National Insurance Surcharge. It was agreed that this was an attractive proposal from the point of view of improving employment, although it was likely to be unhelpful on pay, since there would be a tendency for employers to seek to win for themselves some of the gain.

9. In a brief discussion of the idea put forward by Mr. Ridley of linking an NIS cut to a given outturn on pay, a number of serious difficulties were mentioned. On the one hand it would only be worthwhile if there were some certainty that a cut in the NIS would be right; then the problem would arise of being unable to make the change - which might in the meantime become even more desirable - if the required outturn on pay was not delivered. Again there was the difficulty of seeking to influence individual behaviour by offering what was in effect a collective benefit; there was no certainty of response. More fundamentally, there were objections to conditional policies of this kind; it was much better for the Government to set the framework and then pursue it. On the other hand there was much to be said for making it clear to colleagues at least that a good result on expenditure and pay would make it easier to deliver desirable tax cuts such as a reduction in NIS. It was more a question of showing colleagues what could be possible given certain policies and the "right" outturn on pay and expenditure. It was agreed that the idea of explicitly linking an NIS reduction to a given outturn on pay should not be further pursued.

Annex E Cosmetic Changes

E1 Registering for work. The possibility of extending the categories of people who could be excused the need to register for work in order to qualify for means tested benefits had some attractions and should be kept open.



E2 Less encouragement for married women to seek work. It was agreed that this should not be further pursued.

10. The Chancellor, summing up the discussion, said the meeting had been useful in sifting the various proposals in the paper, rejecting some and according others their degree of priority. He would be grateful if Mr. Kemp would prepare a draft minute for him to send to the Prime Minister reflecting the discussion.

PJ

P.S. JENKINS

10 August 1981

Distribution

Those present
Financial Secretary
Minister of State (C)
Minister of State (L)
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