

SUBJECT

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cc Sir R. Armstrong
Mr Walters
Mr Wolfson

cc Master

NOTE FOR THE RECORD

Unemployment Measures

The Chancellor of the Duchy called on the Prime Minister yesterday morning at 1000 hours. He reported on the meeting of MISC 59 held the previous day. It had not been possible to make much progress because - for understandable reasons - the Chief Secretary had not been prepared to indicate how much money might be set aside for the package. However, the general feeling of the group was that something on the lines of Mr. Prior's Comprehensive Youth Scheme was needed (CYS) (although further work needed to be done on it to ensure that real training was provided), and that Mr. Carlisle's proposal to provide additional funds to local education authorities to enable more young people to stay on in education should be accepted. There was also some support for the Walters Scheme. On the other hand, the group had felt that the proposal to reduce the age for the job release scheme was of relatively low priority.

In order to help focus the group's thinking, he had invited Mr. Prior to circulate the draft of a statement that might be made on the package. This was due to be discussed later that day. However, the Opposition had now put down a Censure Motion, and it had been decided that the debate should be the following Monday. In the circumstances, he felt that, if a package were to be announced before the recess, it should be announced by the Prime Minister in her speech in the debate. But this would mean a different timescale for reaching decisions, and the Prime Minister might prefer to consider the draft statement herself with the Chancellor and Mr. Prior.

Mr. Pym said that, notwithstanding the Chancellor's difficulties and the possible drawbacks in Mr. Prior's proposals, in his view the announcement of a major package before the recess was a political necessity.

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/ The Chancellor of the Exchequer

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The Chancellor of the Exchequer and the Chief Secretary called on the Prime Minister at 1330 hours.

The Chief Secretary said he had grave misgivings about CYS. It was extremely expensive, and it was far from clear where the resources for it would come from; and he doubted whether it had been properly worked out. He did not think the training element in the scheme was likely to be significantly better than under YOP. Furthermore, contrary to what Mr. Prior claimed, CYS was a far cry from the German scheme. The latter involved real training for real jobs; it had a much greater private sector involvement; ^{and} in contrast to Mr. Prior's Option B under which CYS participants would be paid £20 per week, Under the German scheme participants were treated more as if they were still dependent on their parents. Nonetheless, he accepted that the political pressures were such that the early announcement of some measures was necessary. One possibility might be to announce the Walters scheme along with some additional money for public investment. Rather than take a hasty decision on new training measures, it might be better to spend some extra money on public investment so as to "buy off" Mr. Prior. Several Ministers had suggested both at E and in MISC 59 that extra spending on public investment projects would be a better way of taking people off the register than Mr. Prior's proposals, particularly if labour-intensive schemes could be found.

The Chancellor said that he could not possibly accept CYS. Much more work needed to be done on it. At the same time, Mr. Prior should be asked to look again at those factors which were hindering youth employment - in particular, Wages Councils and the Employment Protection Act. In addition, Mr. Prior should consider the right of the unemployed to refuse job offers and yet, too often, to continue receiving dole money. Improvements could also be made to the redundancy scheme; at present, there was evidence that a lot of money was being paid out unnecessarily. Finally, provided the practical difficulties could be sorted out, the Walters scheme

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for exempting young people from national insurance contributions below a certain age and a certain wage should be introduced. One possibility would be for the Government to introduce measures covering all of these areas under a single Bill.

Following discussion, it was agreed that there would have to be some compromise with Mr. Prior. It was agreed that the Prime Minister would put to Mr. Prior a possible package on the following lines:

- i) The Walters scheme
- ii) Confirmation of an extra £93m in 1981/1982 and £113m in 1982/1983 for the expansion of YOP.
- iii) Mr. Carlisle's proposal for keeping youngsters in education.

The Prime Minister would go on to say that she was prepared to consider a major initiative on training, but that further work was needed on it; and in return, Mr. Prior must show willing to consider in a constructive way the hindrances to youth employment on the lines mentioned by the Chancellor.

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Mr. Prior called on the Prime Minister at 1630 hours.

The Prime Minister said that she was prepared to spend quite a bit of money on a package for announcement in the Censure Debate. But she was worried about CYS as proposed by Mr. Prior. It was expensive, it would do nothing to reduce wage costs, it was doubtful whether it would improve the prospects for real jobs, and most of those joining the scheme would all too likely come back onto the unemployment register around the time of the Election. If CYS were announced in its present form it might be well received for

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a day or two, but the commentators would then quickly criticise it for what it was - a cosmetic palliative. She was prepared to consider new training measures, but they had to be properly worked out and there had to be a greater private sector involvement. Thus, she did not think it would be possible to announce CYS or a variant of it by next week. Instead, she suggested the package should consist of -

- i) Mr. Carlisle's scheme
- ii) Expanding YOP
- iii) Exempting youngsters in employment from the national insurance surcharge. Further work was needed on the practicalities, but she hoped Mr. Prior could go along with it. This measure would be linked with a campaign directed at the CBI and Chambers of Commerce to persuade their members to take youngsters into permanent jobs following YOP experience.

While further work on longer term training measures was necessary, she also hoped Mr. Prior would consider once again some of the major hindrances to employment such as Wages Councils and the Employment Protection Act.

Mr. Prior said that a major package was a social and political necessity. He did not believe the Prime Minister's proposals matched up to the problems the Government had to cope with. He was prepared to look at his longer term training proposals again: they were not necessarily perfect; but he had to warn the Prime Minister that major extra spending would be needed. The Chancellor could not be allowed to win on this issue. If need be, the PSBR should be allowed to increase. Interest rates were likely to go up anyway because of developments abroad. He was prepared to look at the Wages Councils and the Employment Protection Act again; but he did not believe there was much mileage in tampering with either of these. The employment benefits would be minimal and the

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political risks very considerable. He was not prepared to accept that there should be any announcement that Wages Councils and the Employment Protection Act were being reconsidered. As for the specific proposals, he would of course go along with Mr. Carlisle's proposal. If the Walters scheme were confined to simply exempting employees from the national insurance surcharge, the effect would be miniscule. If anything were to be done on these lines, the whole of the national insurance contribution would have to be abated. But even this would have an uncertain and probably small effect compared with its cost. The scheme was expensive because it would have to apply to all those youngsters who would have been employed anyway. His Department had estimated that the Walters scheme would cost £225m in a full year and would result in only an extra 20-60,000 jobs. He was prepared to go along with something on the lines of the Walters scheme, but only as a complement to other measures. The package proposed by the Prime Minister would have to include, in addition, his proposal to reduce the age for JRS. To do less would not be politically saleable. Furthermore, it was absolutely essential that unemployment should be on a downward path for eighteen months or so before the Election. The JRS proposal would have a crucial role in making this proposal.

The Prime Minister commented that the JRS proposal would be expensive - and especially so, if it proved impossible, as seemed all too likely, to reverse it. She understood that, without reversal, the cost could rise to £1,000 million by 1986.

Mr. Prior said that the net cost per person off the register through JRS, at £1800, was not excessive. He also pointed out that simply to maintain YOP with existing guarantees was going to cost an extra £310 million in 1983/84 - over and above the existing PESC provision. So even without a major new training initiative on the lines of CYS, substantial extra spending would be required.

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The Chancellor of the Exchequer called on the Prime Minister again at 2000 hours. The Prime Minister said she would take a meeting on Friday morning with the Chancellor and Mr. Prior, and possibly other Ministers closely concerned, to try to reach agreement on the package. In preparation for the meeting, the Chancellor said he would look again at the costs of the JRS proposal and at the practical problems of the Walters scheme.

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23 July 1981