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*Chancellor of the Duchy of Lancaster*

PRIME MINISTER

I set down in the attached note some observations prompted by the papers which have now been circulated.

I have not circulated these to other colleagues, but I will do so if you think it appropriate.

A.C.

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31 August 1983



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PAPER 15

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(Chancellor of the Duchy  
of Lancaster)

## STRATEGY FOR UNEMPLOYMENT

1. There are a large number of individual steps which need to be taken to improve the functioning of our economy. The papers already circulated detail many such measures. But we must not allow preoccupation with these necessary matters to divert our attention from the need for a clear and readily perceivable policy into which the individual measures fit. We did succeed in doing this in our first Parliament in the case of inflation where our goal was clear cut and readily understandable by the people. We need the same approach in the case of unemployment.
2. I believe that it would be better to start with the theme of employment rather than unemployment. The creation of employment is a positive approach harnessing enthusiasm and energy. There is something negative about "unemployment". Obsession with unemployment may lead us to espouse measures - like work sharing and early retirement - which may be necessary short term palliatives but which in the longer term are more likely to damage the economy than help it.
3. We have to get away from the concept that work is limited in quantity and therefore has to be spread thinly in order to ensure that everyone has a fair share. The truth is the opposite. Namely that the work to be done is unlimited. We all - individually and collectively - want a higher standard of living. This means that there is more work to be done, more employment waiting to be called into being. The core of our problem is how do we translate this general aspiration for a higher standard of living into higher output and hence into higher employment. People in their capacity as consumers want more goods and services. Why in their capacity as producers do they not produce these goods and services? And how can we so arrange our affairs that they do?



4. I agree with much of what Sir Keith Joseph says. I would go further and say that we have brought up a generation which does not adequately recognise the need for personal responsibility and which is too ready to demand that the State should provide. Just as it has taken a generation for this attitude to become the dominant attitude, it may take a generation before we succeed altogether in changing it. But we can and ought to change the framework in which people live their lives in a way which positively encourages people to alter their attitudes and their approach: which rewards them for shouldering their own responsibilities.
5. I regard the burden of taxation as the greatest of all obstacles to economic progress and therefore the creation of new employment. Not so much the system - although there is plenty to criticise there - but the sheer burden. The way that taxation siphons off into the Exchequer a sizeable proportion of any additional output itself limits and may even frustrate recovery and growth. The disappearance of 40% or more of the value of additional output into the pocket of the Exchequer creates a serious temptation - or nigh certainty - that the public sector will be maintained bigger than it would otherwise be and the private sector thereby stunted. Even if increased revenue goes wholly to reduce the borrowing requirement, the transmission of the benefit back into the private sector is indirect and the efficiency of the transmission mechanism open to question. We were right to regard substantial reduction of a grossly excessive borrowing requirement as a first priority. I ask now whether we ought not now to put reduction in the burden of taxation at the top of our list of priorities: and ensure that as revenue expands with growing output the whole of that increased revenue should be returned to the private sector in reduced taxation and that none of it should be pre-empted in increased Government expenditure. The strength of the American economic recovery may owe not a little to the President's resolute refusal to increase taxation despite the size of his budget deficit.



6. One would like to see additional output - whether from new or old sources - relieved from tax altogether. It is not possible to do that as simply as that. But we ought to give high priority to measures which one way or another do give tax relief to new enterprise: to expansion: and increased output. We ought not to be directing our efforts to stamp out the black economy. The lesson the black economy teaches is that if 100% of the output accrues to the entrepreneur instead of a large share going to the State, the activity will be undertaken. Our objective ought not to be to eliminate the black economy: but to eliminate those circumstances which make it black.
7. To achieve the kind of reduction in taxation we need to provide adequate incentive and opportunity for new output, we need not only to block the growth of the public sector but positively to reduce it. This does not necessarily mean a reduction in the goods and services the public demands but a change in the way those demands are met. To the extent that we can substitute private provision for public provision we achieve two further advantages. We give the individual an added incentive to earn the money to pay for the service. And we remove the constraint on the growth of those sectors on which people are willing and anxious to spend more. Medical care is one of the great growth sectors all over the world. It is economic madness that we should be stunting its growth in this country because we insist on State finance: and impose a heavy penalty on those perverse enough to provide for themselves.
8. We need to be very, very wary about pensions. In the aggregate we may well be overproviding: but this is the net result of great over provision for some and underprovision for others. If we deal with this in the conventional way of levelling up, it will impose a further burden on the producing sector of the economy. While left to themselves and with full knowledge of the facts people would probably opt for a lower not a higher level of provision.



The whole pensions business is a particularly vicious circle - the demand for better pension provision (on the assumption that someone else will pay); the greater burden this imposes on the producing sector of the economy: the consequent discouragement of output; and the smaller the resources thus available to pay the increased costs. There is a further pitfall which must be avoided. That is change which results in increased reliance on the State's own pension scheme. In terms of what the economy will stand we may be able to provide less for pensions. Of what we can afford most certainly the State should provide less and the private sector more.

9. We have said it so often that I would hope by now other people are beginning to believe it as well. Only the people themselves in their individual capacity can do the job. The function of the State is to provide the right framework within which individuals will operate: and particularly at times like these to provide leadership, encouragement and inspiration. We need first to encourage more people to enter into economic activity; to create new activity, to satisfy demands which exist but which are not being fulfilled. Second we have to encourage those already in economic activity to do better, to capture markets at home and overseas and thus expand their output. In pursuit of the first objective we must remove all the barriers we can - tax barriers, social security barriers, bureaucracy - which discourages people from entering into economic activity. Where we can we must give positive incentives to people to enter into such activity. In pursuit of the second objective the removal of constraints imposed by Trade Union Activities, by Wages Council and in many other ways are vitally important. We need to educate our workforce - and our people generally - in the economic facts of life. The part to be played by management - at all levels - is crucial to economic recovery. Is our management good enough by international standards? What can we do to improve it? But in the end success will come by motivating management; by ensuring that the rewards of success are adequate - or more than adequate - and that the penalties of failure cannot easily be avoided.

A.C.





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10 DOWNING STREET

From the Private Secretary

5 July 1983

Dear Alex,

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

Mrs. Thatcher has asked, in letters addressed separately to each of the Ministers concerned, for papers for discussion at Chequers under the following headings:

Chancellor of the Exchequer

1. What changes should be made to the taxation system, to tax rates, thresholds, allowances and other aspects of tax legislation or administration to reduce costs for industry and to stimulate the creation and expansion of new enterprises and to reduce unemployment?
2. Can the resources currently devoted to regional policy be better deployed to encourage the growth of lasting jobs?
3. What further progress can be made in the lifetime of this Parliament in privatisation, contracting out, and, generally, the opening up of the public sector to market forces?
4. Could public expenditure policies be altered to bring more to the fore the improvement of employment prospects?
5. Can an affordable scheme for portable pensions be devised? As an input to a paper on the subject, I am sending you, under separate cover, a paper produced by the CPRS.
6. Passport for a Job (the Chancellor of the Duchy's minute of 1 July).

Secretary of State for Trade and Industry

1. What more can be done to eliminate or reduce restrictions on the wealth-creating part of the economy - e.g. building, planning and environmental regulations?

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2. What can the Government do, without higher expenditure, to encourage growing industries rather than support declining ones, and in particular to help industry to adapt to, and to exploit, new technology?

Secretary of State for Employment

1. How can we reduce more quickly barriers to employment, for example, Wages Councils, and some of the requirements of the Employment Protection Act?
2. What changes should be made, in trade union law and otherwise, to reduce trades unions power to obstruct change, reduce labour mobility and generally to damage employment prospects?

Secretary of State for the Environment

What changes should be made in the Government's housing policies to assist labour mobility?

Secretary of State for Education and Science (in consultation only with the Department of Employment)

How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangements for technical education?

The Prime Minister would also be grateful for any papers which the Chancellor of the Duchy of Lancaster might wish to offer on any of the above topics, or in any other areas in which he believes decisions are required to encourage enterprise, wealth creation and employment opportunities.

Mrs. Thatcher particularly hopes that each paper will avoid generalities and will concentrate on the specific decisions which need to be taken.

The Prime Minister would also be grateful if you would ensure that any papers which the Chancellor of the Duchy may present are sent to the Prime Minister by Friday 26 August at the latest. Mrs. Thatcher has asked me to emphasise that she wishes the fact of the Chequers meetings, and of the papers prepared for those meetings, to be closely guarded, and that she would prefer the Chancellor of the Duchy to prepare his papers on a personal basis without departmental or inter-departmental advice and consultation.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to

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which reference was made during last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will form a useful background to the Chequers discussions.

*Yours sincerely,*

*Michael Scholar*

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Alex Galloway, Esq.,  
Chancellor of the Duchy of Lancaster's Office,



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10 DOWNING STREET

*From the Private Secretary*

19 July 1983

Chequers Discussion on 6/7 September

I enclose a further note by the Chancellor of the Duchy of Lancaster which the Prime Minister wishes to be considered in the papers you are preparing for September's Chequers meetings.

I am sending a copy of this letter to Alex Galloway only.

**M. C. SCHOLAR**

John Kerr, Esq.,  
HM Treasury.

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