

subject Manpower: seminar
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cc: J. REDWOOD

RECORD OF A MEETING HELD ON 1 APRIL, 1984 AT 5 p.m. AT CHEQUERS
TO DISCUSS UNEMPLOYMENT

Present were:

Prime Minister	Mr. David Young
S/S for Employment	Professor Walters
Mr. Quinlan	Professor Peacock
Mr. Redwood	Professor Hague
Mr. Turnbull	Professor Minford

There was agreement that the origin of high unemployment lay in the defective working of the labour market. No-one attributed it to a lack of demand and no-one advocated use of fiscal or monetary policy - indeed, these were not even mentioned. The Prime Minister drew attention to the contrast with the US economy where unemployment was now falling and where there had been a large increase in the number of jobs; and to Japan where unemployment had never been allowed to rise. She did not think the Japanese example was relevant but it was clear that high unemployment was particularly a West European phenomenon. None of those present expected unemployment to fall significantly - indeed, it was more likely to rise, despite continuing growth in the UK economy. Unemployment would be slow to respond, partly because of the demographic forces which were increasing the labour force, partly because of continuing high growth of productivity in large enterprises and partly because a proportion of the new jobs would be met from those not previously regarded as being in the labour force.

Professor Walters gave his views on the prospects for the US economy. He believed the expansion could be dated from the relaxation of monetary policy in mid-1982 rather than the fiscal deficit which, on its own, was deflationary through its

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impact on interest rates. Output was currently growing rapidly but could be expected to slow down later this year and next. He expected inflation to begin rising again towards the end of 1984. He drew a contrast between the UK where real wages had been rising, and the US where they had increased very little. There was also a much bigger contrast in the US between the rewards of being in and out of work. Unemployment pay did not last as long as here and the provisions of welfare when unemployment pay had been exhausted were much tougher. He thought part of the rise in real wages in the UK had been unintended, as wage claims had been based on expectations of a larger increase in inflation than had in fact resulted. This demonstrated the need to emphasise the Government's determination to bring inflation down further.

Professor Hague argued that high unemployment reflected major structural change. In the longer term, he was optimistic as the world was entering a new long term upswing based on information technology, robotics, lasers, etc. The process of transition would see substantial unemployment as jobs were lost in the labour industries. It was vital to prevent constraints being imposed upon the development and exploitation of the new technologies. Mr. Young was concerned at the growth of long term unemployment - 1.1 million unemployed over one year, 0.6 million over two years and 0.3 million over three years. People could become institutionalised on benefit. In his view, the important distinction was not between manufacturing and services but between large and small companies. He had met very few large companies who were preparing to increase employment but many who were prepared to sponsor small companies as sub-contractors. He recommended that the Community/^{Programme} be expanded to provide relief for the long term unemployed. He noted that there was a waiting list for admission to the Enterprise Allowance Scheme of up to six months in the South. He hoped it would be possible to find resources to allow this Scheme to meet demand.

/ Professor Peacock

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Professor Peacock identified a number of factors obstructing the working of the labour market: employment regulations, the Employment Protection Act, pension costs, lack of transferability of pensions, and Inland Revenue's lack of sympathy for small businesses. We had to be prepared for a more flexible pattern of careers with periods of self-employment alternating with periods of employment. The present pension arrangements were a major obstacle to this.

Professor Minford felt the discussion revealed that the Government was not prepared to tackle the fundamental causes of unemployment. He lay particular emphasis on the interaction of the benefit system and the black economy which held up real wages and caused wholesale withdrawal from the official economy. He put forward a list of action points:

- (i) A crack-down on benefit fraud coupled with an amnesty. (Earlier in the discussion he had advocated a modified form of the wage arrangements.)
- (ii) Abolition of wages councils. The Prime Minister explained the difficulties which had arisen in seeking changes to the Agricultural Wages Boards. She noted that it might be possible to change the way the Boards operated to reduce their influence on youth wages.
- (iii) Further measures to reduce union power. This led to a discussion of the merits of postal versus workplace ballots in the present bill, with the Prime Minister arguing that workplace ballots, as currently provided for, would be open to ballot rigging. Mr. King pointed to the risk that postal ballots would suffer from a very low response.

/((iv) Recourse

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- (iv) Recourse by public sector employers to the provisions of the Employment Acts to counter picketing and secondary action. The Prime Minister pointed out that, in handling the coal dispute, skilful tactics would be needed and a head-on challenge through the courts might be counter-productive.
- (v) Further cuts in public expenditure to increase the scope for tax cuts. Professor Minford argued that the Green Paper objective of a constant real level of public expenditure was insufficiently ambitious.
- (vi) A reduction in the constraints imposed by the Employment Protection Act. It was noted that there was a choice between further erosion of its scope and a major dismantling of the protection provided.
- (vii) Wholesale revamping of the social security system. Professor Minford argued that social security should become the responsibility of the Treasury as this would allow it to be fully integrated with the tax system. The aim should be a major shift between the benefits provided to those in work and the benefits available to those out of work. Child benefit and FIS should be increased and unemployment and social security benefit reduced. He was critical of the way housing benefit had been cut as by concentrating the cuts on benefit paid to the better off the return to being in work had been further reduced.

/The Prime Minister

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The Prime Minister said the measures in the list were familiar and would find a great deal of support as ultimate objectives. What was missing was any sense of realism about what could be put into effect. She doubted whether putting social security benefits alongside taxation under the Treasury would help; it was a mistake to think that the two were considered separately. Major integration schemes could only be made acceptable if there was compensation for the losers. The study of the tax benefit scheme in the 1970s indicated that the cost could run into billions of pounds.

Summing up, the Prime Minister said she would be appearing shortly on "Panorama" and would welcome any briefing material which the group could provide. The following items were identified:

- (i) Figures on the extent to which school leavers had succeeded in getting jobs.
- (ii) Changes in the relative wages of young people.
- (iii) Research work on the response of employment to change in the level of real wages.
- (vi) Professor Hague's ideas on the direction of technological change and on the development of the domestic versus the official economy.

The Secretary of State for Employment and Mr. Young should explore with the Chancellor, as quickly as possible, the problems being encountered with the Enterprise Allowance. They should also consider the case for expanding the community programme and for the introduction of Workfair for young people.

/Professor Hague

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Professor Hague was asked to consider whether the ESRC should sponsor a major research project into the nature of the black economy.

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2 April, 1984

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