

(10/11) ASG



bc: John Redwood

7

10 DOWNING STREET

From the Private Secretary

18 May 1984

Dear David,

SEMINAR ON INDUSTRY AND EMPLOYMENT

My letter of 9 May set out the agenda for the 25 May meeting and promised the circulation of a number of papers. I attach a copy of the two papers produced by the Secretary of State for Employment and a copy of the No. 10 Policy Unit note on wider ownership. Attached to the latter are factual annexes prepared by DTI on employee shareholdings in privatisation issues; steps to promote wider share ownership; and share option schemes. The paper on export promotion will be circulated next week.

I would be grateful if you could ensure that these papers are retained within Private Offices. If Ministers wish to seek briefing on them the papers should be shown only to those who need to see them, without reference to the meeting at which the papers are to be discussed.

I am sending copies of this letter to David Normington (Department of Employment), Michael Reidy (Department of Energy), John Ballard (Department of the Environment), Elizabeth Hodgkinson (Department of Education and Science), Callum McCarthy (Department of Trade and Industry), Alex Galloway (Chancellor of the Duchy of Lancaster's Office), David Young (Manpower Services Commission) and Richard Hatfield (Cabinet Office).

*Yours sincerely
Andrew Turnbull*

Andrew Turnbull

David Peretz, Esq.,
H.M. Treasury.



10 DOWNING STREET

From the Private Secretary

Prime Minister

You have already seen, and approved the circulation of, the Policy Unit note on Wider Ownership.

Enclosed are Tom King's two papers, which have also been circulated, plus a Policy Unit Commentary.

Still to come is a paper on export promotion from DTI

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10 DOWNING STREET

From the Private Secretary

Prime Minister

For Industry and Employment
Series next week we have
Commissioned 3 papers

- 1 (a) Employment trends
 - 1 (b) Employment policies
- } To be circulated by Tom King
2. Export promotion
- } To be circulated by Norman Tiebbit
3. Wider Ownership - produced by the Policy Unit

Agree No 3 should be circulated
to manas? I hope 1 & 2 will
not also be round before the weekend

AT 17/5



Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

Andrew Turnbull Esq
Private Secretary
10 Downing Street
LONDON SW1

18 May 1984

Dear Andrew

SEMINAR ON INDUSTRY AND EMPLOYMENT

... I enclose, as requested, 12 copies of my Secretary of State's papers for the above seminar, which we agreed you would circulate from No 10.

Yours sincerely
David Normington

D J NORMINGTON
Principal Private
Secretary

POLICIES AFFECTING THE LABOUR MARKET AND EMPLOYMENT

Memorandum by the Secretary of State for Employment

Our strategy for economic success is popularly expected to reduce unemployment. We must hold to that strategy as giving us the only genuine prospects of higher employment. Its pursuit is essential to stimulate the efficient operation of both the product and labour markets. My personal belief is that we stand a good chance of seeing unemployment fall over the next three years to the lower end of the range outlined in my accompanying paper, and of course we shall need by then to see a significant declining trend in the level of unemployment.

2 Against this background I believe:

(i) we must take an early initiative to win the public argument about increasing jobs, extending enterprise and seeking opportunities for growth wherever they may be found. This requires a concerted campaign, fed both by our achievements so far and by any new moves to remove labour market constraints and encourage enterprise. I and my Ministerial colleagues in the Department of Employment will certainly seek to play a full part in this but clearly the role of other Ministers, particularly the Chancellor and the Secretary of State for Trade and Industry and their colleagues is vital.

(ii) in addition, we must consider what steps we might take in line with our main economic strategy in perhaps 18 months from now if we judged further action was necessary.

AN EARLY INITIATIVE

3 Inflexible labour practices and loss of management control have made the labour market inefficient and been a significant impediment to the creation of jobs. Since 1979 we have done a great deal to improve the position. Annex 2 lists the action already taken to establish more realistic wages, to provide a more balanced framework of industrial relations law, to improve the quantity and quality of skills, to remove constraints on labour mobility and to promote enterprise through self-employment and encourage greater flexibility in working patterns generally. These measures often take time to show, but the signs are growing eg skill differentials are widening, the pay of young workers is declining relatively to that of adults and restrictive working practices are being removed.

4 What more can we do? The first need is not new measures but to make clearer to people the freedom that now exists for them to generate jobs whether for themselves or for others. The Government can and must continue to remove constraints on the operation of the labour market. The creation of employment then depends on the response of those working within it, notably employers. We must ensure that they do know how much we have already done to remove the burdens and constraints on the creation of jobs. And we need to put this in the context of a general shift towards enterprise and a capital owning democracy in which people are encouraged to employ others. This calls for a concerted public campaign conducted by all of us.

5 Secondly, I also believe that we can and should do more within our economic strategy:

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(a) to remove any further constraints that we can on the labour market to bring supply and demand for labour into better balance; and

(b) to assist the two groups of people who will continue over the next three years to be especially badly hit by unemployment - the young and the long-term unemployed.

6 Annex 1 lists a range of possibilities of further action to meet these requirements. We must decide which of these to pursue and who should do them and we need to fit their announcement as each comes forward into the public campaign I have in mind.

7 Two of them would serve particularly well to give fresh focus to the message of that campaign:

(i) one would be Lord Cockfield's "passport for a job" idea adapted to a voluntary basis (paragraphs A.8-10 of Annex 1). In essence this would enable smaller employers to employ young people at a modest wage, free of tax and NI, and exempt from the Employment Protection Acts. Such a scheme would dramatically remove the administrative burdens from employers and could unlock a whole raft of extra jobs from small employers who are put off by all the paperwork and regulations. If this were to happen it would be a most effective example of the link between deregulation and job creation.

Of course, there are a host of problems, both of policy and operation, that need to be thought through to see whether it really could work and main legislation would be needed. But I hope colleagues will agree that we should really see whether we can overcome the problems and mount some version of the scheme, possibly limited in the first instance to small businesses, where the employment impact is likely to be greatest, and for young people;

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(ii) we could also build on the success of the Enterprise Allowance Scheme introduced only last year. This helps unemployed people set up in business on their own account by paying them an allowance of £40 a week for a year in place of benefit. It is not only highly popular, but a first class illustration of our philosophy of encouraging enterprise and self-help in a capital owning democracy. We could continue it on the basis of opening it to all comers instead of rationing applications and we could make it easier for people to qualify (paragraph E.8 of Annex 1).

8 There would be a cost to these moves - though in the case of the passport scheme it is a loss of revenue rather than public expenditure. While I cannot yet be certain, I believe there is a good chance that I could contain the cost, on the provisional estimates, within existing PES provision, notably from savings from the Youth Training Scheme.

9 If we found we could make either or preferably both of these moves, we could use their announcement very effectively within the publicity campaign to get over our message to employers and the public generally on our positive approach to the generation of more jobs through freer operation of the labour market.

FURTHER ACTION

10 Separately from that initiative it must be prudent to consider what we might do if no clear sign of a declining trend in unemployment were to appear by early 1986, recognising that it takes time for any action to have effect.

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11 It is plainly crucial that any such action then should not appear to run counter to our economic strategy and is generally accepted as tackling priority problems. It would also be necessary to select measures which are labour intensive and sure in their employment effect and preferably inclined towards those who are then being most hardly hit. It seems to me that this requires us to turn attention to two particular areas of potential action:

(i) the extent to which existing special employment programmes can be readily increased and the time lag involved. Possibilities are the Community Programme (in general or for the very long-term unemployed - paragraph C.8-9 of Annex 1) and a temporary resuscitation of the Job Release Scheme by moving the age down again from 64. Both of these schemes could be expanded to have a relatively quick and substantial impact on unemployment (though not on employment), possibly to the extent of assisting another 150-200,000 unemployed people;

(ii) the extent to which, with adequate preparation, we could quickly replace those public expenditure programmes and projects which are less labour intensive with those which would raise employment quickly, and what the cost effect could be of supplementing them further.

12 These approaches would have expenditure effects which would have to be considered within the public expenditure programmes generally and in accordance with the economic strategy.

CONCLUSION

13 I invite colleagues' views of the above assessment and suggestions.

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ANNEX 1

POLICIES AFFECTING THE LABOUR MARKET AND EMPLOYMENT

POSSIBILITIES FOR FURTHER ACTION

1. Jobs depend not just on the development of products and services for sale, but on the responsiveness of the labour market to the needs of the product market. Over the years inflexibilities in the labour market external to companies and in their internal labour markets have damaged competitive efficiency, enterprise and job creation. It has accordingly been an important aim of Government policy since 1979 to free the labour market from restrictions and improve its operation in the interests of employment.

2. This Annex sets out possibilities for further action (including some already in train or under consideration) to stimulate employment though facilitating the working of the labour market. Annex 2 records relevant action already taken by the Government since 1979. The material in both Annexes is grouped into the following five sections, though each contributes in complementary ways towards the basic objective:

- Section A: Labour costs - wage and non-wage
- Section B: Labour relations - the legal framework, employee involvement
- Section C: Labour quality - vocational education and training
- Section D: Labour mobility - placement services, housing and pension policies, regional policy
- Section E: Patterns of work - changes in the length of working life and working week, the balance between full-time and part-time work, self employment.

SECTION A: LABOUR COSTS

A.1 The links between pay, unit labour costs and jobs, in both private and public employment, are now much more widely recognised and understood. Levels of pay and conditions of employment have to take account of all the various claims on the employer's resources. Not only must they enable employers to recruit and retain employees, reward effort and skill and promote productivity: they will significantly affect current competitiveness and profitability and therefore the course of investment which will influence future employment.

A.2 It is necessary to produce conditions in which pay reflects these realities. This can be done by explanation, aided by example-setting in the public sector; by removing statutory or contractual limits on the setting of wages in relation to the employer's circumstances; by removing and discouraging arrangements which depend on comparability; by introducing and stimulating flexibility in payments reflecting skill and experience; and by removing or minimising fiscal and statutory burdens on employers which discourage employment.

A.3 Action already taken to bring about these changes and induce greater flexibility in pay determination is set out in Annex 2. There are several options for further action to deal both with wages and with non-wage costs or employment conditions.

(i) Wage issues

(a) Central Government employees

A.4 For the negotiated groups of government employees the scope for giving further weight to market factors is limited. First, as the level of pay settlements has fallen, the room for manoeuvre on differentials, whether for skill, age or location, has become much smaller. Secondly, the unions have been consistently opposed to widening skill differentials, and this resistance can be expected to increase. For the non-negotiated groups, progress depends

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on the extent to which the Review Bodies are willing to give greater weight to market factors than they have in the past; and, where they do not, on the Government's willingness to take the politically difficult step of altering the Review Bodies' recommendations.

(b) Removal of Government constraints

A.5 Ministers have decided not to abolish Agricultural Wages Boards but will shortly be re-considering the future of Wages Councils, although the obligation to observe ILO Conventions prevents any radical change before 1986. The Attorney-General has advised that current ILO obligations preclude not only complete abolition, but also the exclusion of substantial categories such as young people, part-time workers or small firms. E Committee have previously considered a number of less radical options - such as imposing new statutory duties on the Councils - but so far have concluded that none would be effective or worthwhile.

(c) Lowering the relative pay of the young

A.6 The Young Workers Scheme could be developed to have a greater effect. One possibility would be to extend the scheme to young people beyond age 17 eg to under 20 year olds, among whom the level of unemployment is particularly high. With the level of subsidy remaining at £15 a week for up to 12 months, provisional estimates indicate that extending the scheme to young people under 20 at the current earnings limit levels (£50 a week) might mean an additional take up of up to 60,000 in 1985/86 (take up for 17 year olds for that year is estimated at about 50,000). Additional gross public expenditure would be some £13 million (current PES provision for YWS in 1985/86 is £45 million). If the scheme were limited to employees of small firms (say under 10 employees) this should improve its cost effectiveness, but would reduce the increase in take up and net additional jobs.

A.7 It would perhaps be more sensible as an alternative to maintaining current earnings limits to have an age related wage criterion (eg less than £50 per week for those under 17, less than £60 for those under 18, less than

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£70 for those under 19). This would have a number of effects: it would retain the relative depressing effect on wages and increase take up, but might also have a counterbalancing detrimental effect on employment opportunities for adults.

A.8 A more radical option would be to restyle or replace the Young Workers Scheme with a new scheme along the lines of Lord Cockfield's suggested "Passport for a Job". Under such a scheme employers would be free to offer, and young people under age 18 would be free to refuse or accept, jobs offering a cash wage of up to say £45 a week without any obligation on either party to pay income tax or national insurance and outwith the scope of all (or most) statutory employment protections. While many of these conditions may already apply to young people (for example NI, contributions are only payable above a wage level of £34, and in practice few young people fall within scope of many employment protection provisions), the object would be to encourage more employers to take on young workers by removing all such obligations.

A.9 The inducement to the employer would lie in the removal or reduction of the burden of paper work entailed in taking on any new employee (for example, by removing the requirement to conform to PAYE procedures even though the employee's wages are below the tax threshold). Young people would benefit from improved job prospects no PAYE and NI contribution (provided contributory benefit cover was maintained by granting NI credit). From the Government's point of view there would be a revenue loss but no public expenditure commitment. NI contribution exemption for employers and employees could cost £15 million a year and 'tax lost' could be around 21 million a year. Deadweight (ie those who would have been employed even within the exemptions) could be considerable; if experience resembled the Young Workers Scheme, deadweight might be as high as 80 per cent.

A.10 The Scheme could of course be extended beyond 16 and 17 year olds to under 20 year olds. This would increase the revenue loss and possibly the complexity of the scheme as it moves into the area of adult wage rates. If on

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the other hand the scheme were limited to small employers, deadweight and revenue losses could both be less.

A.11 Such a scheme would need main legislation. Though simple in concept, considerable policy and operational problems would have to be resolved before it could be confirmed feasible eg on tax and national insurance (where exemption from tax and NI contributions would break the principle that earnings create a liability), movement in and out of the scheme (possibly creating a wage trap), and the implications for the Youth Training Scheme. Preliminary exploration of the practicalities is in hand.

(d) The effect of the tax and benefit systems

A.12 The impact of PAYE on casual and part-time employment is worth examining. If the level at which PAYE impacts on such employment could be raised or casual workers given limited exemptions from its operation, there could be advantage in removing some of this activity from the black economy and in promoting more such employment. There will be problems of definition; some cost from exempting existing jobs in the "white economy"; and opportunities for people to take several part-time jobs and avoid tax on them all.

A.13 The interrelationships between the tax and benefit systems have been intensively scrutinised; in particular, in 1982 the CPRS made a number of recommendations to overcome the detrimental effects on employment. These are worth re-examining and could be placed on the agenda of the Central Unit's work for the DHSS reviews of social security. They include:-

- (i) overcoming effects on the wage floor by uprating supplementary benefit in line with the lower of increases in prices or earnings; and finding new way of subsidising low income families that would be more effective than FIS and less expensive than increasing child benefit or tax thresholds.

- (ii) reducing the lack of incentive to take up work by changing benefit rules to require acceptance of any job that paid no less than benefit; or reintroducing a 'wage stop' on benefit.
- (iii) encouraging take up of part-time work by allowing more earnings to be retained without equivalent benefit loss.

Making a major inroad into the poverty and unemployment traps will, however, be extremely costly and, as the recent Green Paper showed, will depend crucially on maintaining firm control of public expenditure over a number of years.

(ii) Non-wage issues and employment conditions

A.14 Turning to non-wage issues and employment conditions, one option to be considered is to repeal the statutory protections against unfair dismissal and other lesser protections (eg action short of dismissal). This would be to return to the pre-1971 position although statutory protections would need to be retained for such dismissals as those from closed shops or for union membership, on the grounds of sex or race and, under an EC Directive, for employees the ownership of whose undertaking is transferred.

A.15 Repeal apart, a thorough review of the statutory provisions undertaken this year has identified the following main options:

- (a) extend the qualifying period to 2 years for all employments (reducing the number of complaints by about 25%) or to 3 years (reducing complaints by about 43%);
- (b) exclude all very small employments (a cut-off at 5 employees would remove about 1.4 million employees from scope; a cut-off at 10 employees about 3 million);
- (c) exclude "new" businesses on a variety of possible formulations;

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- (d) a voluntary option of arbitration where the employer and the claimant agree to accept the outcome as an alternative to a settlement by a tribunal, subject to a statutory ceiling on the amount of compensation which could be awarded;
- (e) make arbitration compulsory for "minor" cases, say complaints made in the first 1 to 2 years following qualification.

A.16 The review also identified a number of administrative and other possible improvements to the industrial tribunal system, mainly as an alternative to more radical action, on which work is already in hand:-

- (a) increasing the efficiency and cost-effectiveness of tribunals;
- (b) ending the requirement on tribunals to provide detailed written decisions in all cases;
- (c) exploring the possible benefits of revising the Code of Practice on Disciplinary Practices and Procedures in Employment;
- (d) discouraging the growing use of solicitors at the conciliation stage;
- (e) more tentatively, exploring ways of reducing the number of appeals to the Employment Appeal Tribunal.

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SECTION B: LABOUR RELATIONS

B1. A more balanced framework of industrial relations law assists realism in collective bargaining and facilitates the management of change and the pursuit of efficiency. At the same time labour relations and efficiency within companies can be improved through action by employers to involve employees more closely in decisions that affect them at their place of work. Better operation of the labour market requires action on both aspects of labour relations.

INDUSTRIAL RELATIONS LEGISLATIVE FRAMEWORK

B2. The action already taken is set out in Annex 2. Possibilities for further action under consideration are:

- (a) The ways in which the maintenance of essential services can be better assured through primary legislation;
- (b) Alternative proposals have been developed which would enable employers to lay-off without pay employees whose work was affected to any extent by industrial action. The first would relieve employers of their contractual and statutory obligations when a major dispute in a key industry had widespread effect. The second approach would provide the same reliefs if selective action was taken by only some employees of the same employer.
- (c) The possibility of deeming all substantive and procedure agreements legally enforceable (or attaching trade union immunity to their observance), if employer opinion generally came to be supportive of such steps, if it was possible to be confident that employers would use the remedies the law would provide, and if negotiated agreements were improved to the point that they would bear the weight of legal interpretation.

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EMPLOYEE INVOLVEMENT

B3. Action already taken is reported in Annex 2 (paragraph B3). The prime requirement is to allow practice to develop according to the needs and circumstances of the individual enterprise and to avoid imposition of a rigid and predetermined approach from outside. We shall therefore continue our twin aims of resisting the draft 'Vredeling' and Fifth Directives of the EC while supporting and encouraging good practice, mainly through Ministerial speeches.

B4. Employer organisations are also active. In the last year the Industrial Participation Association and the Institute of Personnel Management have issued an authoritative Code of Practice and together with the CBI are holding this year numerous involvement seminars and conferences up and down the country. It will be open to us to review the position at some future date in the light of company reports under Section 1 of the 1982 Employment Act.

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SECTION C: LABOUR QUALITY

C.1 For the labour market to work properly those within it must have the right skills and/or the capacity to attain them. Over the years those emerging from our education system have too often been less broadly educated than their counterparts abroad; too little attention and status has been given to technical education and to education of the least able young people. Within the electronics industry shortages of certain skills are already appearing, leading to the risk of sharp upward pay movement. More generally, the low number of technicians and craftsmen, the low percentage of managers with formal qualifications and of workers with any vocational qualifications at all, together with the restrictive practices surrounding the apprenticeship system, have all contributed to a relatively poor economic performance.

C.2 Details of action already taken to improve the relevance of education and training to industrial and commercial requirements are in Annex 2. Further possibilities are:

(a) Educational initiatives

C.3 The action programme within the schools sector will, if successful, lead to a series of connected initiatives over the next few years. In collaboration with other Government Departments it will be aimed as far as possible at those points within the decentralised education system which have a direct influence on the curriculum and examinations. In particular:

- (i) Initial teacher training will be reformed to improve the selection of trainees and to make training courses academically more rigorous, more closely related to the practical work of teaching in the schools and taking more account of pupils' employment opportunities in industry and commerce.
- (ii) As the objectives of the 5-16 curriculum and for each main subject in it come to be defined, local education authorities will be

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asked to report on how the curriculum in their schools measures up to the defined objectives and to take steps to secure that it does.

- (iii) The objectives for the school curriculum will emphasise practical skills and applications for pupils of all ages and ability levels, building on and complementing what the Technical and Vocational Education Initiative (TVEI) is doing for a selection of 14-18 year olds.
- (iv) Among the objectives for the school curriculum is the introduction of pupils to the nature and origins of our society, including the economic facts of life.
- (v) The 16+ examinations will be changed so that grades are awarded only if candidates have demonstrated required levels of understanding and competence - broadly defined, rather than mainly an ability to recall facts in an orderly fashion.
- (vi) All school leavers will be offered a record of their achievements at school, including success in activities other than examinations which throw light on their personal qualities.
- (vii) The proposed legislation to give parents elected by their fellow parents control of most school governing bodies with important responsibilities for the affairs of the school will enable parents to contribute to the objective, which they regard as crucial, of better preparing pupils for jobs.

C.4 If this ambitious action programme for school education were to be extended, one further change worth examining to improve the quality of the labour force would be greatly to broaden the sixth-form studies of every student, by replacing the A level examinations with an examination more on the lines of the German Abitur. This would require all those aspiring to post-16 qualifications and higher education to continue to study to age 18 a much

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wider range of subjects than is now common, including mathematics and science, thus strengthening the technological base of the labour force as well as its competence in other areas.

C.5 In Higher and Further Education the need is probably less for radical innovations, but for more and better of what we now have. In this situation a number of possibilities exist which are already receiving attention.

- (i) Developing comprehensive part-time education and training provision for the 16-18 age group, by extension of the Youth Training Scheme or otherwise.
 - (ii) The further development of activity like the DES Professional, Industrial and Commercial Updating Programme.
 - (iii) Extension of the Information Technology in Higher Education initiative.
 - (iv) Substantially increased output of graduates in the technologies.
 - (v) The potential of distance learning for delivering education economically.
- (b) Training loans

C.6 The 1984 White Paper "Training for Jobs" stated that the Government would "examine, in collaboration with the Manpower Services Commission and others, the possibility of establishing a loan scheme for adult trainees". DE are conducting a preliminary study of the need for and practicability of a loan scheme. The study will be submitted to Ministers soon with a view, if they agree to proceed, to designing a pilot scheme and issuing a consultative document in mid-July. Action thereafter will depend on the response and on whether main legislation is required for the type of scheme favoured.

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(c) Training the long-term unemployed

C.7 As was also stated in the 1984 White Paper, the Government are considering an MSC proposal for more training or work preparation in the Community Programme with the object of making those on it more employable. The proposal is that funds should be made available for up to 13 weeks off-the-job training or work preparation - though the average would probably be about 6 weeks - for up to 50,000 of the 130,000 places on the Programme. Participation by employers and individuals would be voluntary and no training allowances would be paid in addition to the remuneration under the Programme. Officials are examining the proposal and will shortly put a recommendation to Ministers.

(d) The very long term unemployed

C.8 The possibility is being examined of a scheme of community work for all very long-term unemployed with the dual object of maintaining their employability and enabling them to contribute to the satisfaction of local community needs. Alternatives might be to offer this type of work permanently or to permit those who have already completed a placement under the Community Programme to be eligible for another one after a further period (perhaps six months) of unemployment. People could continue to become re-eligible in this way for as long as necessary. To some extent this latter option is already possible under the current procedures, but if eligibility conditions were eased the client group would be enlarged.

C.9 At present 656,000 people have been unemployed for 2 years, of whom 300,000 have been unemployed for up to 3 years and 191,000 for up to 4 years, so the numbers such a scheme would need to cover are very large. Experience with the Community Programme indicates that finding enough sponsors and suitable projects to meet such a demand would be a problem. The costs would also be very substantial; using Community Programme criteria every 10,000 places would cost annually £43 million gross - £18 million net.

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SECTION D: LABOUR MOBILITY

D.1 Artificial constraints on mobility, both between jobs and from one place to another to take up employment, hinder the proper working of the labour market. Government measures can of course only permit and encourage mobility and not enforce it. In any case, geographical mobility involving a change of residence is likely to have only a marginal impact on unemployment when labour markets are depressed throughout the country. Mobility policies can thus be seen as complementary to regional policy which aims to contribute to a better geographical spread of employment.

D.2 There is already a fair degree of mobility. The Government has taken steps to encourage this (see Annex 2) and further possibilities are set out below.

(a) Housing

D.3 The Government has already undertaken to introduce measures to abolish solicitors' conveyancing monopoly and is reviewing the house purchase process generally, through the work of the conveyancing Committee and the official group, to see whether it can be simplified and speeded up. Of greater potential significance is the legislation to be taken in 1985/86 for the decontrol of rents for new lettings. Other possibilities include:-

- (a) further development of accessible low cost home ownership, especially through shared ownership schemes;
- (b) the direct provision of homes by building societies for sale, rent or shared ownership if, as proposed, the societies are given powers to hold land;
- (c) issuing a new circular (now in draft) which will advise authorities to increase the availability of land for housing, including the maximum use of inner urban land, and make its provision more in tune with market demand;

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- (d) taking more positive steps, eg the use of powers of direction, to encourage the disposal of sites on the land registers for development or new use;
- (e) speeding planning applications by improving efficiency and further streamlining the system-revision of the General Development Order and extending the Enterprise Zone concept more generally as Simplified Planning Zones;
- (f) reducing the disincentive effect of Capital Gains Tax on resident landlords;
- (g) amending the rules relating to resale of ex-council houses to free purchasers of the requirement to repay discount after 3 years instead of 5 as at present.

(b) MSC Mobility Schemes

D.4 The cost effectiveness of these schemes - employment transfer and job search - is currently under review and proposals will be put to Ministers in the early summer. The possibility exists for a further extension of these schemes to encourage more people to move home or to search for jobs outside their own area. At present under 5000 people use the job search scheme each year. This number could be increased by extending eligibility for the scheme, for example by removing the requirement on employers to show that a job could not be filled by local labour. Proposals are being considered by the MSC for an extensive reorganisation of the network of Jobcentres which should provide a more extensive but more cost effective placement service.

(c) Pension Schemes

D.5 The 1983 Manifesto included a commitment to ease the position of the "early leaver" under pension schemes. The Government proposals for legislation requiring pension schemes to revalue early leaver's pension rights by 5% per annum up to pension age have been published in a consultative

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document, and the new legislation is planned for next Session. The Inquiry into Provision for Retirement being conducted by the Secretary of State for Social Services is also examining ways of encouraging personal portable pensions, one of the aims being to open up fresh avenues for making pension rights even more portable from one job to another.

(d) Regional Policy

D.6 The new scheme of regional assistance - to be implemented this Autumn - aims to be more cost-effective, to be more job-related and to provide greater parity of treatment between manufacturing and service sectors. It will provide for the payment of Regional Development Grant at the higher cost of either a fixed amount for each new job created in the Assisted Areas by eligible projects or a fixed percentage of approved capital expenditure, subject to a cost per job ceiling. Levels of grant have yet to be fixed but there is a case for relatively high job grants consistent with the policy aims of cost-effectiveness and sound investment. The job grant element element will have to take account of the EC policy of controlling State aids (which we support) but it might be worth reconsidering the current EC ceiling of about £3000 per job, in the interests of maximising the employment impact of the new scheme.

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SECTION E: PATTERNS OF WORK

E.1 Greater responsiveness in the labour market implies improvements in the supply of labour through adaptation to new working patterns as well as adjustments in labour costs and the acquisition of new skills. Responsibility for using labour more flexibly and adaptably must lie primarily with employers. Many British firms are indeed developing schemes for new work patterns including flexible working time, more part time working and different forms of employment contract including homeworking. The scope for this varies with the nature of the business and the composition of the workforce.

E.2 There is considerable current interest in worksharing as a means of reducing unemployment. Though this has advantages in theory in allowing highly flexible working time, there are severe practical limitations. Furthermore, work sharing has to be accompanied by pay-sharing if it is not to make business uncompetitive and push up the rate of inflation. It will be difficult to reach and enforce agreement on this.

E.3 In the light of this, Government intervention should be directed to breaking down barriers - whether of institutions, working practices or habits of thought - to the adoption of worksharing where it does have economic advantages. Any positive measures of this kind would go beyond the current more limited objective, which is to use worksharing (eg through early retirement and short and part-time working) as special employment measures. These have represented a trade-off in the short term between Government objectives because, although their initial impact on unemployment can be quite rapid, some of them may as a result tend to relieve downward pressures on wages, so producing an adverse price effect in the longer-term.

E.4 The attractiveness of worksharing in the longer term depends upon the view taken of the way in which the economy will develop. In the light of current uncertainties, it would be wrong for the Government to advocate or recommend irreversible moves towards sharing out work which might damage competitiveness and hinder employment prospects, especially with the prospect

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of a declining labour supply in the 1990s. A draft EC Recommendation on Working Time is to be considered by the June 1984 Council of Ministers, but it is important to maintain Government opposition to draft EC Directives in this area (eg on part-time work) which would have a restrictive effect on flexible working.

E.5 These considerations do not apply to policies for encouraging the trend towards increasing self-employment as a more prominent pattern of work. (DE estimates are that the number of self-employed rose by over 350 thousand between mid 1971 and December 1983).

E.6 Action already taken by the Government to encourage new working patterns is described in Annex 2 and further possibilities are set out below.

(a) Small Firms

E.7 The DTI are reviewing both the possibility of simplifying the present schemes of support for small firms and of making further efforts to remove administrative and statutory burdens; most further action also now rests with other Departments. The DTI are also reviewing the future of the Small Firms Loan Guarantee Scheme (see para E1 of Annex 2) which ends this month. A further possibility would be careful scrutiny of the tax and NI systems to ensure no discrimination against the self-employed, though NI contributions for the self-employed have already been held below the level properly due.

(b) Enterprise Allowance Scheme

E.8 This scheme for helping unemployed people set up in business is also being currently reviewed. An increase in the rate at which people enter the scheme over the next 3 months was announced on 1 May and this will contain the current waiting lists. If the scheme was made available on a demand-led basis to all who qualify, the take-up could rise annually to an estimated 70,000 at a cost of around £68 million. If the qualifying period of unemployment was also reduced from the present 13 weeks to 8 weeks, the number could rise to around 80,000 at an annual cost of £78 million.

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(c) Effect on enterprise of insolvency law reform

E.9 The proposals contained in the White Paper on insolvency law reform will serve to reinforce public confidence in business standards. Some proposals are designed to increase pressure on company directors and managers to keep a close watch on the financial position of their companies so that difficulties are recognised at an early stage and also to prevent abuse of limited liability by those who deliberately drive their companies into insolvency only to start up again. There is concern that the tougher regime of disqualification and the imposition of personal liability will have an adverse effect on risk-taking especially on venture capital concerns involved in a number of new high risk companies. These should be looked at again to ensure that the right balance between encouraging enterprise and protecting the public has been struck.

(d) Part-time working

E.10 The encouragement of part-time working through the Job Splitting Scheme and part-time JRS is under review, including possible modifications to increase their attractiveness. While the low take-up of JSS makes abolition a possibility, it might also be the case that JSS would be greatly enlarged if new jobs qualified. An experiment might be valuable to see whether the extra deadweight involved would be more than offset by the genuine additional jobs created (thereby saving Exchequer money). The Civil Service could also be widely used to demonstrate the advantages of job-splitting: DE is currently working up proposals of its own and other Departments could follow suit.

(e) Limiting overtime

E.11 Discouragement of systematic overtime working as a means of creating employment is often suggested. As a matter solely of arithmetic, if the 11 million hours of overtime currently worked weekly in manufacturing could be transformed into normal hour jobs, it would yield 280,000 more vacancies for the unemployed, though this would of course be to ignore the practicalities of the real world. Moreover, the amount of overtime worked is not, on average,

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large: average overtime worked in 1983 by men was about 3 hours in an average total working week of 41½ hours (compared with about 44 hours in 1973). It is often the most efficient and cost effective way of coping with fluctuations in workload or small but regular amounts of work outside normal working hours.

E.12 To limit overtime by law would therefore require exemptions to be made (and administered) for its use where commercially justified. The limitation could in any event be effective in creating employment only if there were no significant increase in employers' costs as a result; and only the employer can determine the comparative costs of overtime as against recruitment. A prime requirement before considering Government intervention seems to be to establish why companies operate with so much overtime as business expands or are they incorrectly appraising the economics of the situation? The evidence is being reviewed, as is the possibility of linking overtime reduction to the Job Splitting Scheme so as to encourage employers who use regular overtime to consider creating two part time jobs as an alternative.

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ANNEX 2

POLICIES AFFECTING THE LABOUR MARKET AND EMPLOYMENT
ACTION TAKEN SINCE 1979

SECTION A: LABOUR COSTS

A1. Action has been taken so far in a variety of ways:

- (a) Public sector employment. Central government has just under 2 million employees, with a total paybill of nearly £20 billions. For the collectively-bargained groups (over 1 million) the Government's general negotiating stance has been based on the principles that employers should pay no more than is required to recruit and retain at various grade and skill levels; and that affordability (in this context, the need to contain public expenditure) should play a key role. For the groups covered by Review Bodies, the same principles are taken into account both in the government's evidence to, and decisions on the implementation of, the Review Bodies' awards. But the Review Bodies generally give great weight to comparability, and thus follow, not lead, developments in the market. Since 1980, the general level of pay settlements for collectively-bargained groups in central government has been below that for the rest of the economy, while pay increases for the Review Body groups have generally kept pace with or been somewhat ahead of those outside.
- (b) Wage comparability. Schedule 11 of the Employment Protection Act 1975 (which could be used by unions to require employers to pay wages afforded in other employments) has been repealed and the Fair Wages Resolution rescinded.
- (c) Fiscal action has been taken to lower the cost of employing labour. The abolition of the National Insurance Surcharge,

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combined with the planned restructuring of First Year Capital Allowances, will substantially reduce the present tax bias in favour of investment and against employment. The abolition of investment income surcharge and the lightening of Capital Transfer Tax will help potential employers to assemble or retain capital. Increases in the income tax threshold in the last two budgets will help to induce people to seek work more actively, though this will be a long haul.

- (d) The Government has also sought to keep down labour costs by protecting employers from NI contribution increases. In 1979, the standard (not contracted-out) NI contribution rate was 6.5% of relevant earnings for employees, and 13.5% (including 3.5% NI surcharge) for employers. From October 1984, the rates will be 9% for employees, and 10.45% for employers (there being no NI surcharge from that date). In other words, employers will have been released entirely from the earlier 3.5% NI surcharge, and the increases needed in the national insurance contribution (excluding the NIS) have been imposed mainly on employees (to the extent of 2.5%), while employers have been shielded so far as possible by increasing their contribution by only .45% over the same period.
- (e) Statutory burdens on employers associated with employment have been relaxed. In 1979 the qualifying period of employment for the protections against unfair dismissal was increased from 26 weeks to one year. The Employment Act 1980, among other relaxations, further increased the qualifying period to 2 years for employment with employers employing 20 or fewer employees; and in the unfair dismissal procedures, both qualified the test of "fairness" (so that the size and administrative resources of smaller employers were taken into account) and shifted the onus of proof away from the employer.
- (f) More realistic wages for young people have been encouraged. This has been done directly through the Young Workers Scheme, which now

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provides for employers to claim weekly payments of £15 for up to 12 months for each eligible young person (mainly 17 year olds) employed at less than £50 a week. The £25 a week limit on reimbursement to employers of allowances paid under the Youth Training Scheme has similar effects.

A2. It is not possible to disentangle the effects of the Government measures from the impact of economic influences generally on pay determination within industry and commerce. There is, however, still a continued stickiness in the way in which employers adjust wages to their particular circumstances, evidenced in the way that wage increases have, despite recession, remained higher than price inflation. But there is evidence that skill differentials have widened, that the pay of young workers declined sharply relative to that of adults between 1982 and 1983, and that in some sectors apprentice pay has been reduced under new training agreements.

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SECTION B: LABOUR RELATIONS

INDUSTRIAL RELATIONS LEGISLATIVE FRAMEWORK

B1. Trade unions have lost immunity for inducing, etc industrial action outside restricted definitions of what is lawful (eg for secondary picketing, secondary action, disputes not between an employer and his employees wholly or mainly concerned with terms and conditions of employment). They are now at risk to injunctions (with the sanction of unlimited fines if they are not observed) and damages (subject to limit). Requirements in commercial contracts about union membership or recognition have been voided and industrial action to enforce them no longer has immunity. Dismissals from closed shops are unfair unless they have been overwhelmingly approved in secret ballots. Dismissal of strikers at only one establishment of an employer is no longer unfair.

B2. When enacted, the Trade Union Bill will ensure that all voting members of union executives are elected by secret ballots; that trade unions will have no immunity for industrial action if a secret ballot of the members concerned is not held; and that union political funds need to be approved by a secret ballot every 10 years.

EMPLOYEE INVOLVEMENT

B3. The Government believes that managers can secure better results, including better technical standards and the acceptance of necessary change, where they voluntarily consult workers about decisions affecting them. Steady progress is being made. For example, the last authoritative survey showed a 6% increase in the previous 3 years in the number of establishments with joint consultative committees - to 37% in all establishments and 76% in establishments with over 1,000 employees. Section 1 of the 1982 Employment Act provides that firms with more than 250 employees should state in their Annual Reports the specific steps they have taken to further employee involvement. This provision is now in operation and we shall be examining the first results later in the year.-

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SECTION C: LABOUR QUALITY

C.1 Since 1979 sustained attention has been given to the ways in which education and training can support employment. A more coherent policy framework has been established and action taken both to improve education as a preparation for working life and to relate training for particular jobs much more closely to the requirements of industry and commerce.

The Contribution of Schools

C.2 The Government's policy to raise standards in schools includes the objective of equipping pupils throughout the ability range with a broad range of skills, competence and understanding. This will improve their preparation for training and employment. It is part of the aim that the school curriculum should be broad and balanced, relevant to the world of work with an appropriate emphasis on practical applications, and differentiated in accordance with ability and aptitude. As this action programme takes effect over time, school leavers will enter the labour market better grounded in personal qualities, attitudes and skills for training and employment.

C.3 In 1981 the Secretaries of State for Education and Wales set out the policy objective in broad guidance to the education service and asked LEAs to prepare curricular policies for their areas accordingly and to report on these in due course: reports have since been required by 30 April 1984. In January 1984 the Secretary of State for Education and Science announced the longer-term aim of raising the attainment of 80-90% of pupils at age 16 to the level now expected and achieved by the average pupil over a range of subjects and skills; this aim is to be achieved by a more closely defined curriculum (which would extend to the promotion of personal qualities and attitudes as well as subject learning), improved methods of assessment, including the 16+ examinations, and enhanced teaching quality.

Training and Vocational Education Developments

C.4 The 1981 White Paper "A New Training Initiative: A Programme for Action" set out three national objectives for the reform of skill training, for the vocational education and training of the young and for adult training. A specific action programme was set towards the NTI objectives of which the main features were introduction of the new Youth Training Scheme; the establishment of "Open Tech" to improve access to training and re-training opportunities; a target date of 1985 for training to recognised standards in place of time-serving and age restricted apprenticeships; greater vocational relevance in the school curriculum; and an examination of the sharing of training costs as between trainees, employers and the tax payer. Since the White Paper the Industrial Training Board system has also been substantially reformed.

C.5 The January 1984 White Paper "Training for Jobs" describes something of what has been achieved so far and the further action already under way or planned. The principal features are:

- (a) The education service has been encouraged to improve the preparation which it offers young people for work through
- developments in the school curriculum
 - the introduction of the Certificate of Pre-Vocational Education
 - the introduction of the Technical and Vocational Education Initiative
 - strengthening schools' and colleges' links with employers (the Colleges-Employers Links Projects Programme is especially relevant);

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- (b) the roles and responsibilities of employers, trainees and Government have been clarified on the basis that training is an investment which needs to be attractive financially. Restrictions on access to training and the deployment of trainees must be removed. The main responsibility for training rests with employers, but trainees can contribute by accepting realistic allowances and Government by helping with the transition from school to work, training the unemployed and funding experimental courses in new technologies and techniques.
- (c) the Youth Training Scheme has been successfully launched and 1984-85 will be a year of consolidation with an emphasis on improving the quality of training. It fully meets the UK's obligation under the EC Resolution on Vocational Training of July 1983, to ensure that (within 5 years) all minimum age school leavers should receive training or work experience. (The UK currently expects to receive about £200 millions towards the cost of YTS and related programmes from the European Social Fund for 1983/84. Recent revision of the Fund rules will enable us to claim even more in future.)
- (d) some industries have made substantial progress towards reforming their arrangements for training in occupational skills (including apprenticeships) though much still remains to be done to meet the 1985 target. The wider, longer-term, aim is to adopt a coherent system of training standards and certificates of competence, covering achievement in vocational education and training, both initially and throughout working life.
- (e) the MSC is initiating a national campaign to raise awareness of the need to offer more opportunities for adults to acquire, improve or update their skills, and, with DES, is encouraging closer local collaboration between employers and education and training organisations. MSC's adult training programmes will be restructured to help many more people with job-related training.

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as well as training geared to the needs of the unemployed. Skillcentre training has been put on a commercial basis by setting up the Skillcentre Training Agency, and Open Tech will be extended;

- (f) public sector provision for training and vocational education is intended to be made more responsive to employment needs by increasing MSC's resources for purchasing work-related non-advanced further education in England and Wales to about one quarter of the total provision in this area.

C.6 Further initiatives have also been taken in the education sector.

- The DTI's Industry/Education Unit is working in collaboration with industry and commerce, for example to provide industrially relevant resource material for schools, colleges and Examination Boards; to encourage industry-related expertise in both initial and in-service teacher training; and to introduce new technology into all schools eg through the various "micros" schemes;
- opportunities for adults are being enhanced through the DES Professional, Industrial and Commercial Updating Programme, which is now in its stride;
- DES's Information Technology in Higher Education Initiative is substantially increasing the output of IT-qualified graduates and diploma-holders;
- the Further Education Unit has been strengthened;
- the planning exercise of the National Advisory Body for Local Authority Higher Education, related to intakes in autumn 1984 and after, substantially increases the proportion and total effort within Advanced Further Education devoted to work-related courses (especially engineering and business studies);

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- first degree engineering courses in universities and polytechnics have been much evolved in the light of the recommendations of the Finniston Committee (1979) and subsequent attention to this topic;
- the MSC has collaborated with the DTI in the development of Information Technology Centres (ITECs) of which 150 have been approved.

The use of skills

C.7 A more competitive industry also requires the full use of trained people's skills. This is the responsibility of industry and commerce itself and there is evidence of progress. Large companies, such as Pilkingtons, ICI and Michelin have been making agreements to provide for greater interchange of process workers and craftsmen at the workplace and for more "hybrid" multi-skilled workers. In some cases, eg BSC, British Shipbuilders and provincial newspapers, market forces have provided the main spur to breaking down old demarcations. The introduction of new technology has encouraged the same developments, eg at BL, Rolls Royce and Blue Circle. Such changes owe much to the application of greater management confidence and resolve and the involvement of employees affected.

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SECTION D: LABOUR MOBILITY

D.1 Since 1979:

- (a) changes in housing policy have helped to free the housing market and therefore allow greater mobility. Home ownership has been extended; a start has been made on reducing restrictions on private letting; the rate of stamp duty on house purchase has recently been reduced; and in the public sector the National Mobility Scheme and the Tenants Exchange Scheme have served to make it easier for Council tenants to move from one area to another. No reliable assessment can be made of the impact of these measures on willingness to move: from the 1971 to the 1981 Censuses there was a fall in total mobility probably due in part to the reduced employment opportunities in recent years; in 1982-83 the National Mobility Scheme accounted for over 4500 moves at national (as distinct from County) level, the Tenants Exchange Scheme for up to 4000 moves. The latter will be reinforced by a Statutory Right to Exchange for public sector tenants contained in the Housing and Building Control Bill which should shortly receive Royal Assent;
- (b) the Government has taken a number of steps to speed up the performance of the planning system. Duplication between planning authorities has been reduced. Approved structure plans now cover the whole of England apart from Avon, and a large number of local plans are in preparation. The proportion of planning applications decided within 8 weeks has risen from around 60% in 1979 to around 70% in 1982 and the first three quarters of 1983. A range of measures to speed up the handling of planning appeals has also been carried forward and the average decision time for all appeals was 21 weeks in 1983 compared with 29 weeks in 1979. A range of new initiatives has been developed to assist inner city areas: land registers, urban development grant and the establishment of

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urban development corporations in London and Liverpool. All these measures are now leading to increased private sector housing activity in urban areas;

- (c) the MSC's placement services have been improved. The computerised vacancy circulation system has been implemented nationwide. Arrangements have been made for Jobcentres and private employment agencies to display details of each other's services in order to encourage jobseekers to make full use of both private and public sector assistance in finding employment. The Professional and Executive Register (PER) has been given a separate trading account and required to cover its costs on this basis. By removing the "social subvention", PER has been exposed to competition from private employment agencies on fairer terms. The MSC Employment Transfer and Job Search Schemes have been extended to cover a wide range of skilled jobs. These schemes help fill jobs where employers cannot find suitable workers locally, by providing grants to unemployed people to move home and take such jobs or to look for work in other areas;
- (d) loss of pension rights can deter people from changing jobs and the Government has encouraged the pensions industry to take action to deal with the problem. Regulations have also been amended to ease the rules for transferring pension rights from one contracted out scheme to another.

D.2 The December 1983 White Paper on Regional Industrial Development proposes policy changes to contribute to a better geographical spread of employment. It states the Government's belief that the case for continuing with regional industrial policy is now principally a social one with the aim of reducing, on a stable long term basis, regional imbalances in employment opportunities. Regional industrial policy has another justification as the mechanism through which we obtain our share of the European Regional Development Fund: £170m was received in 1983.

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SECTION E: PATTERNS OF WORK

E.1 Small firms often have advantages in achieving the flexible working practices necessary for their survival and growth. Ninety-five per cent of all enterprises in manufacturing employ fewer than 100 people and the small companies' share of manufacturing output has begun to increase in recent years. The Government has done much to assist the establishment and growth of small firms through measures designed to offset their inherent disadvantages, notably in regard to managerial and other specialist resources and the supply of capital. Fiscal measures (e.g. lower Corporation Tax, better stock option arrangements to attract good management) are part of this. The Loan Guarantee Scheme is estimated to have contributed 33,500 net new jobs. The Business Expansion Scheme has also been successful in tapping new sources of equity capital for small firms.

E.2 The Enterprise Allowance Scheme, introduced as a special employment measure last year, has proved extremely popular among unemployed people as a means of helping them set themselves up in self-employment. It pays them an allowance of £40 a week for up to a year in place of benefit. Some 31,000 people have benefitted from the scheme since it began. The Scheme is cash-limited and applications far outrun places.

E.3 The Government has also encouraged greater flexibility in working life through more flexible rules relating to retirement. All men over 60 on supplementary benefit can now qualify for the higher long-term rate of that benefit; and unemployed men over 60 get NI credits for future pension and benefit purposes without having to register as unemployed. The Job Release Scheme is now a long standing special employment measure which has encouraged older people (at different points in the 60s for men and at age 59 for women) to retire early and vacate their job for a younger unemployed person. The scope of the scheme for men (other than disabled) has been brought back this year from age 62 to age 64 so it will have a more limited effect.

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E.4 Some encouragement has been given by the Government to the spread of part time working through the introduction last year of the Job Splitting Scheme and part-time Job Release as special employment measures. The former scheme makes a grant over 12 months to an employer who splits a full time job into two and recruits one of the part timers from the unemployed: the part time JRS is available to men from age 62 and offers half the full time JRS allowance to those who wish partly to retire and where the part of the job thus released is occupied by someone unemployed. Both schemes are in line with expressed interest in flexible retirement and worksharing but both have had a very low take up so far.

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EMPLOYMENT PROSPECTS

Note by the Secretary of State for Employment

1 Cabinet on 1 March decided that it would be useful to look in more depth at future employment prospects and the scope for Government action to improve them.

2 This note is concerned with future employment prospects. Attached to it is a background paper prepared by my officials, in consultation with Treasury officials, which examines recent trends of employment and unemployment and their view of prospects for the future.

3 The broad thrust of the paper is that, barring unexpected shocks in the domestic or international economies, adult unemployment in three years' time might be expected to fall somewhere in the range 2½-3½ million.

4 I believe that our economic strategy is working and that unemployment will be in the lower part of the range. But the paper points out that the recovery in output has been going on for three years without any effect on unemployment, and also that even within a "shock free" scenario quite a number of things have to go right if we are to see a strong and sustained reduction in unemployment

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5 At the moment, it is not impossible that unemployment will drift slowly up during this year. Real wages are rising; labour supply is increasing; and the high level of productivity increase - most welcome in itself - is running ahead of the increase in output.

6 If the assumptions in the paper turn out to be pessimistic (eg if there were faster growth in the world economy), we might do better than is suggested. But I think it is prudent also to consider what would happen if there were adverse shocks to the economy, such as a slowdown in the US or world economy or a rise in inflationary pressures. Unemployment might then continue on an upward path into the higher part of the range or could even be above it. And, of course, such an outcome would simply increase the time it took for our economic strategy to pay off in terms of employment and unemployment, and probably damage its credibility in the country.

7 The Annex also points out that, if unemployment were to continue at a high level or were to rise further, this would mean disproportionately serious problems for long-term unemployment, for the 18-25 age group, and for particular localities.

8 While I am optimistic on the economic and employment front, I think it is prudent to consider the range of possibilities which lie ahead. Given the long-time lags between policy initiatives and their effects, we should consider what we might do - and when - if things do not turn out as well as I expect.

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BACKGROUND PAPER

LABOUR MARKET TRENDS AND PROSPECTS

1 The UK economy is about to enter the fourth year of recovery from a recession which reached its trough at around the second quarter of 1981. The inflation rate has been halved, output is now growing at three per cent a year, and there has been an improvement in cost competitiveness. Despite these developments, there is no sign of a downward trend in unemployment. To explain this paradox, this paper looks first at the broad trends of development over the past three years and then at more recent trends. It then attempts to draw out the implication for the prospects over the next three years.

THE PAST THREE YEARS

2 Over the past 3 years, GDP has grown at an average rate of $2\frac{1}{2}$ per cent a year (or 2 per cent a year if North Sea oil output is excluded). But in the early part of this period and before, the rapid growth in real earnings together with high interest rates and a high exchange rate put companies under severe financial pressure. They responded by reducing their stocks and to some extent by resisting continued rapid earnings growth; but they also shed labour, thereby increasing productivity to an unusual extent. In manufacturing, output per person grew at an average rate of over $6\frac{1}{2}$ per cent a year - the fastest sustained growth in productivity since the war - and for the economy as a whole (excluding North Sea oil) it grew by about 3 per cent a year.

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3 Productivity thus rose to an unexpected degree and, especially in manufacturing, substantially exceeded the growth in output; this had its counterpart in a rapid fall in employment. Over the three-year period, productivity growth, for the whole economy excluding North Sea oil, exceeded output growth by a margin averaging 1 per cent a year, corresponding to the same percentage fall in employment. The average annual fall in employment over the last three years has been about 320,000 in GB manufacturing and about 300,000 for the employed labour force as a whole.

4 Demographic growth added significantly to the problem but its effect was partly offset by a fall in the proportion of the population seeking work. Activity rates among prime-age males do not appear to have fallen in response to the recession, but among men of 55 and over there has been a continuing sharp fall which is thought to have been influenced also by the Job Release Scheme and by the increased availability of occupational pensions schemes. Recessionary influences appear, however, to have been mainly responsible for the cessation of the hitherto upward trend in female activity rates in the late 1970s and for their noticeable decline since 1981.

5 To summarise: the picture over the last three years, from December 1980 to December 1983, is:

- (a) an annual average increase in the labour force of about 150,000

- (b) an annual average decrease in the employed labour force of about 300,000
- (c) an annual average increase in unemployment of about 330,000.

THE PAST YEAR

6 Unemployment in April 1984 stands at some 800,000 above its level of three years previously, but virtually all of this increase occurred in the two years to April 1983. It is thus evident that, within the three-year averages referred to above, a new trend has been emerging in the course of the past year. Because of the delay in getting statistics there has to be a large element of guess work as to what has really been happening in the past year. We believe it is as follows.

7 GDP growth has accelerated in the course of the past year, at 3 per cent for the whole economy or $2\frac{1}{2}$ per cent excluding North Sea oil, some $\frac{1}{2}$ per cent above the three-year average. This has reflected growing consumer and business confidence following reductions in inflation and interest rates, improved prospects for world trade, and a recovery of cost competitiveness. There has been a marked easing of the financial pressures on the company sector and many firms have been rebuilding their stocks.

8 In the labour market, the past year has seen a renewed growth in real earnings, accounted for by the fact that, although the growth rate in nominal earnings had fallen to less than half of that of early 1981, the fall in the inflation rate was substantially greater. Productivity continued to rise, and overall competitiveness increased throughout 1983.

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9 Compared with the three-year averages referred to above, the gap between productivity growth and output growth was reversed in the past year with output growth exceeding productivity growth for the economy as a whole by perhaps $\frac{1}{2}$ per cent, corresponding to about 100,000 people in more jobs. The fact that unemployment did not fall appears to be accounted for by an increase in the labour force of over 150,000, but offset by the substantial increase which has occurred in the impact of special employment measures.

PROSPECTS FOR THE NEXT THREE YEARS

10 The Department of Employment's projections suggest that over the next three years the labour force may be expected to grow at an average rate of about 120,000 a year, with a population effect of about 100,000 a year and an expected increase in activity rates comprising a resumption in the growth of female activity rates, partially offset by a continuing decline in activity rates among older men. These projections suggest that an average increase in employment of 120,000 a year would be just sufficient to maintain unemployment at its present level over the next three years. But allowance has also to be made for a probable small decline in the impact of employment measures so that the employment increase required might be put in round figures at 130,000 (or about 0.6 per cent) a year. On these assumptions, unemployment would therefore remain at present levels if output growth exceeded productivity growth by a margin of 0.6 per cent.

11 The latest version of the Medium Term Financial Strategy assumes that the average rate of growth of output over the next three years will be slightly in excess of $2\frac{1}{2}$ per cent a year excluding North Sea oil. If productivity were to grow at between $1\frac{3}{4}$ and 2 per cent, which is the rough average of current assumptions, on this basis, there would be no significant rise or fall in the level of unemployment over the next three years.

12 But both assumptions could well turn out to be wrong. If the gap between output and productivity growth were larger, employment would grow more rapidly, and vice versa. Different trends in activity rates from those assumed could also produce different outcomes for unemployment. Each percentage point increase by which output growth exceeds productivity growth would lead to an increase in employment of about 200,000 a year and a reduction in unemployment of perhaps 150,000 a year.

13 A slower growth of earnings relative to productivity is one of the most important routes through which a more favourable outcome could come about. In time it could lead to increased output relative to productivity, through better competitiveness and profitability and lower interest rates. If annual earnings growth were some 2 percentage points lower, the initial reduction in unemployment on account of increased output alone might be about 50,000 a year in the first few years.

14 Slower earnings growth would also tend to lead to a slower substitution of capital for labour and the growth of the more labour-intensive sectors of the economy as relative costs and prices in those sectors fell. Such substitution and structural effects would show up at the aggregate level as a lower rate of productivity growth, and hence a reduction in unemployment. But they take time to build up, and the improvement in employment may not be large in the first few years.

15 Faster output growth for reasons other than slower earnings growth would also tend to improve unemployment, unless it was associated with productivity growth that was higher to the same extent. Over the next few years it is possible that output may grow more rapidly, perhaps because of better world economic conditions, an improvement in non-price competitiveness, or an increase in domestic demand. This is unlikely to be matched by an equal increase in productivity growth.

16 On the other hand, the outcome could be less favourable than assumed. The recovery has been under way for almost three years, which by the standards of most post-war recoveries is a long time, without a major effect on employment or any effect on unemployment. This partly reflects the fact that the recession was deeper than on earlier occasions. But this does not necessarily mean that a cyclical downturn will not occur within the next few years, particularly if economic developments abroad lead to less output growth than is being assumed.

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17 The outcome could also be less favourable even if output grows at the assumed rates. It is possible that labour shedding will continue at a fairly high level, and that productivity will grow rapidly as a result, without a correspondingly high rate of output growth. There is still plenty of scope for reducing overmanning before the levels of other major industrial countries are reached. In general, however, faster productivity growth, especially when it is not the result of a labour shake-out, will be accompanied by faster output growth rather than by slower growth in employment.

18 Departures from the projected labour force trend could also influence the outcome. Although the demographic trends used in the projection are well established, some uncertainty surrounds the projected activity rates. For older males it is assumed that, in view of the retirement bulge commencing in 1985, pressure for early retirement will ease, so that activity rates will decline at a slower rate than in the late 1970s. If they had been assumed to decline at the same rate, then the projected growth in the labour force would have been lower by some 50,000 a year. The projected female activity rates are sensitive to assumptions concerning fertility. If instead of the OPCS central projections their high-fertility variant had been used, the projected labour force growth would again have been lower by about 50,000 a year.

THE PLAUSIBLE RANGE OF OUTCOMES

19 It is evident that substantial uncertainties surround the central assumption of a stable path of unemployment. By

varying a number of key assumptions it would be possible to construct an alternative scenario in which unemployment falls by, say, 300,000 a year. But to do so would involve an exceptionally favourable combination of circumstances. Though unemployment during the recovery from 1932 did fall by over 300,000 per annum for a sustained period, and though the current US job generation shows what economic dynamism can do, there is no precedent in British post-war history for a sustained fall of this magnitude over a three year period. The most rapid rate of fall was at 215,000 a year during the "Barber-boom" of 1972/3, but this was sustained for only 21 months. It would be equally possible, moreover, to construct a pessimistic scenario in which unemployment continues to rise at a rapid rate.

20 On the above analysis, assuming no major shocks to the economy, it is reasonable to see a band of outcomes ranging from decline in adult unemployment of about 200,000 per annum over the next three years, to an increase in adult unemployment of the same order. On this basis, adult unemployment might be expected to fall in the range $2\frac{1}{2}$ - $3\frac{1}{2}$ million.

THE INCIDENCE OF UNEMPLOYMENT

21 The bulk of the employment growth over the next three years is expected to occur in the private service sector, with probably offsetting falls in manufacturing and public sector employment. This suggests that female employment is likely to grow more rapidly than male employment. On the

other hand, female activity rates are expected to rise and male activity rates to decline. On balance this suggests a continuation of the recently-established tendency for female unemployment (which at present stands at 9 per cent) to rise somewhat relative to male unemployment (now at 15 per cent). The decline in the relative pay of young people observable over the past few years may contribute to this trend by displacing female employment.

22 There is likely to be some change in the age distribution of unemployment. While unemployment rates in the 25-54 age bracket seem likely to remain in the region of $10\frac{1}{2}$ to 11 per cent, unemployment among under 18s (now 23 per cent) is likely to show a marked decline for demographic reasons, because of lower relative pay, and because of the impact of the YTS and YWS schemes. Among 18 and 19 year olds there may be a slight rise from the present rate of 27% as a result of displacement by younger people, and this might also be the case for 20-24 year olds, where the rate is currently 21%.

23 Long-term (over 12 months) unemployment is expected to stabilise at not much above its present level of 1.2 million or 37% of all unemployed. The proportion of the unemployed who are long-term unemployed rises consistently with age, to over 45 per cent in the over 55 age bracket. It remains significant for younger people, however, at over 25 per cent for 18-19 year olds.

SECRET AND PERSONAL

24 The regional distribution of unemployment is expected to show no major change, with the possibility of a continuing deterioration in the West Midlands and some improvement in Scotland and the South West. Even on the more optimistic scenario, unemployment will remain very high in some parts of regions and some localities, eg inner city areas.

SECRET AND PERSONAL

17 May 1984
Policy Unit

WIDER OWNERSHIP

The Conservative Manifesto states:

"A free and independent society is one in which the ownership of property is spread as widely as possible. A business which is partly or wholly owned by its workers will have more pride in performance. . .

"Under this Government, the property-owning democracy is growing fast. And the basic foundation of it is the family home."

"We want to encourage wider ownership. This means lowering taxes on capital and savings; encouraging individuals to invest directly in company shares; and encouraging the creation of more employee share schemes."

Why is the private ownership of property so important to a free society?

The home-owner has many freedoms which council tenants do not enjoy. He can move anywhere in the country by selling his house and buying a new one; he can improve, renovate and paint his house as he sees fit, subject to planning controls; he can borrow against his assets and use profits from sale for other purposes. This can help him finance enterprise and business ownership.

The shareholder and part-owner of a business has rights which an ordinary employee or customer does not have. True employee involvement in company affairs comes through share-ownership. He can make his views known on the future direction of the company, its policy, its management and style. He can vote on board policy, and to support or reject the candidatures of directors.

In summary, the ownership of property brings people new rights. It spreads power in the community. It brings new responsibilities. The home-owner has to repair his own property. The employee-shareholder thinks about the profitability of the company as well as about his next wage claim. It is the best bulwark against nationalisation and confiscation of assets by the state. People gain a vested interest in freedom. Wider ownership can ward off negligent management, or the abuse of power in large companies. Wider share-ownership enables others to participate in the profits of hi-tec and rising productivity. Home-ownership removes the threat of tyrannical landlords - whether they be council or private.

A policy of wider ownership is both popular and stable. Policies to enforce redistribution of wealth become so much less attractive when wealth is more widely spread. It is

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one of those few examples of a policy which, at one and the same time, meets with very widespread support and is extremely difficult to reverse.

What are the options for stimulating home-ownership further?

Home-ownership is now a realistic objective for two-thirds of the population, and over 60 per cent have now achieved this aim. It could easily become reality for three-quarters of the population. Some of the better council housing estates are already being transformed by their new owners keen to renovate their homes, improve their gardens and change the face of their estate.

- a. The functioning of the housing market. For some buyers, particularly first-time buyers, the costs and complexity of house purchase can still represent a serious obstacle. The Government has started to take action, halving Stamp Duty, raising the threshold, and announcing an investigation into the solicitors' conveyancing monopoly.

Stamp Duty and legal costs remain large expenses in the purchase of a home. The options therefore include:

- i. a further reduction in Stamp Duty (threshold and/or rate);
 - ii. ensuring that enough competition is introduced into the provision of conveyancing services to lower the cost and improve the quality of the service (Committee now investigating how to proceed);
 - iii. a more rapid extension of registered land, which is the best way of cutting the costs and complexity of securing a recognised title;
 - iv. further encouragement of competition between estate agents, who are now beginning to compete on fee as well as on service. {E(CP) could look at this question.}
- b. Council house sales.
- i. The Right to Buy scheme can be extended to include the right to buy houses on leasehold land and the right to buy on a shared-ownership basis (Manifesto pledge). Housing and Building Control Bill is proceeding along these lines.

- ii. The maximum discount can be increased further. Housing and Building Control Bill raises it to 60 per cent after 30 years.
 - iii. The period during which the house has to be held in order to gain the exemption from any clawback of the discount could be reduced from the current 5 years.
 - iv. More publicity could be given to the schemes. Something is planned for September by the DoE, which could include leaflets, adverts and building society help.
 - v. The question of obstructive and dilatory councils could be re-examined. The Secretary of State does have powers to intervene under the 1980 Act.
- c. Encouraging more private sector owners. The best way of encouraging home-ownership is the encouragement of a low interest rate policy through tight control of public borrowing, in accordance with the general economic strategy. Tony Crosland remarked as Housing Minister that he eventually discovered that the Chancellor ran housing policy! Options here include:
- i. A renewed drive to sell the vacant land owned by local councils, nationalised industries and health authorities, particularly in urban areas, in a concerted effort to get more, cheaper, developable land available for the construction of low-cost homes. Such a drive in docklands has already led to the construction of homes in the £25-35,000 range, which brings them within the reach of many people who never dreamt they could afford a home anywhere near the centre of London. NHS vacant residential accommodation could also be sold.
 - ii. A renewed drive to develop homesteading schemes to move people in to derelict property, often owned by councils, which they can then rehabilitate - in return for favourable terms on rent - with an option to purchase. There are far too many tinned up terrace houses that should be used.
 - iii. Encouragement of building and improvement for sale by local authorities. This can involve

using public wasteland through partnership schemes.

- iv. Careful drafting of the building society legislation to enable them to strengthen the services they provide in the housing market, without allowing them powers to lend money for industrial purposes.
- v. Allocating more money to the Housing Corporation to facilitate do-it-yourself shared ownership.

What can be done to encourage employee shareholdings more fully?

Continuing the policies to reward enterprise, so that people can make money by owning shares in a profitable business is the best way of proceeding. Lower taxes are the main necessity, coupled with a stable economy so that equity values are not subject to violent downward adjustments.

Some of the options before the Government are:

1. Making the Enterprise Allowance scheme demand-determined at the expense of some of the most costly job-creation programmes. (Under consideration.)
2. Continuing to offer a wide range of incentives to employees to buy shares in denationalised concerns. The three main techniques are the free offer of shares to all employees; the offer of additional shares at a discount to the public price, with some limitations on the number; and the pink-form preferential applications for shares in the issue at the public price. All these three techniques have worked in the past, and should continue to be a predominant feature of those denationalisations not being handled by management buy-out. (See DTI paper.)
3. A revised fiscal regime for all savings (see below) to make direct ownership at least as attractive as, and preferably more attractive than, institutional ownership.

Why is wealth largely held through institutions?

Institutional ownership of company securities has built up rapidly over the last 20 years. There are now estimated to be only half a million independent private shareholders in British companies in the UK, even though there are 2 million people with private wealth holdings, apart from their house and their pension fund, in excess of £10,000.

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The aggregate figures for the personal sector wealth holdings in September 1983 were:

Insurance and pension fund investments	£175 billion
Building society shares and deposits	£75 billion
Company securities	£55 billion
National Savings and gilts	£45 billion
Others	£40 billion
TOTAL	£455 billion
Borrowings	£50 billion
NET ASSETS	£405 billion
Houses (end 1982)	£350 billion
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NET HOUSING ASSETS	£260 billion
<u>TOTAL NET ASSETS</u>	£665 billion

(CSO figures rounded)

£405 billion of non-housing assets is shared roughly between 40 million people over the age of 18. This is an average of £10,000 per head. This stock of wealth is being added to by regular saving. In 1982, there was £20 billion of personal saving; in 1983, £17 billion.

Any cursory analysis of the figures demonstrates that a very high proportion is either held cautiously or through institutional hands. The odd thousand pounds or two held by most people should not be held in the form of shareholdings. Most people want a prudential balance, and a sensible place to keep that is in a building society or a bank deposit account, or with National Savings. This will remain true.

Until the last Budget, if I took out an insurance policy I received tax relief on the premiums. And even now if I take one out as a higher-rate taxpayer, the taxation of the

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income on the investment is sheltered by the 37.5 per cent insurance company tax rate, compared with the 60 per cent if paying top rate tax. If I buy a house, the interest on the mortgage can be offset against tax, and the asset is free of capital gains on disposal. If I wish to save for my retirement through an institutionalised pension fund, I receive tax relief on the contribution, on the investment and capital gain within the fund, and on the lump sum which I can get in part payment on retirement. If I invest up to a given sum in National Savings, SAYE and a Girobank account, I get tax relief on the interest paid. And if I buy a Government security and hold it for longer than 1 year, I am exempted from Capital Gains Tax. If, however, I choose to go out into the marketplace and buy an ordinary share in a British company, I get no tax relief whatsoever.

There are two ways of approaching this difficulty. One way is to give some limited tax relief to encourage direct investment in shares along the lines of the Loi Monory in France. The alternative way is to tackle the problem of the incentives to institutional saving. The Government has started out on this latter course to simplify tax. It is assumed, for the purposes of this paper, that this is the right route and it is the one that the Government will want to pursue.

The big areas to examine are pensions and life insurance.

Pensions. The average member of the average pension scheme has £11,000 of assets about which he knows little. Norman Fowler's Inquiry into pensions is making progress in finding ways in which people can be sure that they will get a realistic transfer value from their pension scheme when they leave; and in finding ways in which those individuals who wish to be more personally associated with this part of their wealth can do so. Policies to force more disclosure of what the individual is worth, to force better transfer values, and to give a wider range of options to those joining companies or moving companies or setting up in business on their own, are all methods for moving towards a world in which individuals understand this enormous wealth that they own and have more direct control over it.

Another option is to consider breaking some of the fiscal advantages enjoyed by the pension funds.

Insurance company investments. The removal of life assurance premium relief is likely to make a considerable impact on the number of new insurance policies sold. Many of these policies had become an elaborate method for capturing tax relief for

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investment schemes, whereas the original intention was to encourage life cover. The market will now concentrate on selling pension schemes instead of life assurance-related savings.

Making markets more accessible to individuals. In addition to the fiscal advantages of institutional ownership, to the average man the stock market is a remote rich-man's casino, and he would not know how to go about buying a share even if he wanted to.

He is put off by:

- (a) The absence of retail outlets in the average high street - the building societies only grew like Topsy as and when they were able to install attractive looking branches in every town and shopping high street in the land.
- (b) The high costs of dealing - 1 per cent contract stamp, coupled with 1.65 per cent stockbroker's commission and a 3-4 per cent jobber's spread.
- (c) Attitudes of much of the financial community who have not been actively encouraging the small man to use their services.
- (d) Fears of losses or of being caught up with wrong advice.

Many of these problems can and should be tackled by the impending revolution in the City. One of the changes that should take place is the development of retail branches transacting share business. The building societies on an agency basis, the Post Offices, the major clearing banks, even some of the large chain stores all have the outlets which could offer this facility. It may be that firms like the new Charterhouse-Hambro merger will take the lead. Another developing route will be purchase through TV/home computer telephone-linked services direct to your home.

Dealing costs have been reduced by the halving of Stamp Duty in the Budget. As the market moves towards a new trading system, based on an amalgamation of jobbing and broking, the spreads and commission costs of dealing particularly in the larger shares should come down quite sharply. Whether they will do so for the small man or not depends on whether "execution houses" spread in the UK as they have in the US, offering a cheap, no-frills business to all comers. It is desirable that they should.

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Nothing succeeds like success. If people do start buying shares and they go up in value, they will become shareholders for life. Governments cannot legislate for rising markets, but they can try to pursue economic policies that favour profits and dividend growth (as with the corporate tax changes) and offer a stable environment for business. As the veils are removed on pension fund values and assets, more and more people will come to appreciate that their futures are already ventured in Stock Exchange securities, and some will want more direct control or choice over adviser.

Much of this is a chicken-and-egg question. Many people in the City say of course they would do the business if the business were there to do; whilst others object that the business will not be there to do unless they show they are willing and happy to do it in a friendly and efficient way. The Government should give every encouragement to the development of a retail Stock Exchange, and should certainly eschew regulation of the market in a way which bolsters the role of the big institutions at the expense of the small man. It can encourage full disclosure of dealing, oppose cartels, and show people what they own through its pension, insurance and building society policies and legislation.

CONCLUSION

Wider property-ownership is central to the philosophy of this Government, is politically popular, and is difficult to reverse.

It can be given renewed impetus by:

- (a) A further stimulus to council house sales.
- (b) Policies to associate people with their pension fund wealth more directly.
- (c) Fiscal neutrality between savings mechanisms.
- (d) Using the changing shape of the City to expose individual wealth, and regulating and legislating in a way which encourages individuals to participate.
- (e) The denationalisation programme. BT is an especial opportunity to widen share-ownership in view of its size and the publicity planned for it.

What action has the Government taken to increase home-ownership?

The Government has been successful in encouraging more people to own their own home. In Great Britain in December 1961, there were 7,085,000 privately-owned homes. This figure had risen to 9,598,000 by December 1971; to 11,430,000 by April 1979; and now stands - at the end of 1983 - at 12,900,000. This process has been assisted by:

1. A system of mortgage interest relief against income tax, which makes investment in housing a most attractive proposition.
2. Exemption of a house, if it is the owner's main residence, from Capital Gains Tax.
3. The steady growth in capital values of houses.
4. The restrictions placed upon building societies from lending money for purposes other than home-buying, coupled with their success in being popular channels for private savings.
5. The encouragement of council house sales to tenants at generous discounts.
6. The encouragement of sale of derelict land, particularly from the public sector in urban areas, to assist housebuilders wishing to construct cheaper housing.
7. The encouragement of a range of low-cost, low-start mortgage schemes and part equity schemes for house-buyers.

What is being done to extend employee shareholdings?

The Government is extending the number of employee shareholdings by:

1. The Budget reliefs for new employee shareholding schemes.
2. Encouraging management buy-outs in the public and private sectors. The National Freight Corporation was a singular success, where the managers and lorry drivers bought up their business and transformed it and are now sitting on profits of over 400 per cent on their stake money.
3. Encouraging employee shareholdings when businesses are denationalised through employee preference schemes.
4. The range of measures to help small business, and the Enterprise Allowance to encourage people to set up on their own.
5. Some moves towards fiscal neutrality to make institutionalised saving less attractive, particularly with the abolition of life assurance premium relief.

17 May 1984

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The Government has been successful in encouraging more people to own their own home. In Great Britain in December 1961, there were 7,085,000 privately-owned homes. This figure had risen to 9,598,000 by December 1971; to 11,430,000 by April 1979; and now stands - at the end of 1983 - at 12,900,000. This process has been assisted by:

1. A system of mortgage interest relief against income tax, which makes investment in housing a most attractive proposition.
2. Exemption of a house, if it is the owner's main residence, from Capital Gains Tax.
3. The steady growth in capital values of houses.
4. The restrictions placed upon building societies from lending money for purposes other than home-buying, coupled with their success in being popular channels for private savings.
5. The encouragement of council house sales to tenants at generous discounts.
6. The encouragement of sale of derelict land, particularly from the public sector in urban areas, to assist housebuilders wishing to construct cheaper housing.
7. The encouragement of a range of low-cost, low-start mortgage schemes and part equity schemes for house-buyers.

What is being done to extend employee shareholdings?

The Government is extending the number of employee shareholdings by:

1. The Budget reliefs for new employee shareholding schemes.
2. Encouraging management buy-outs in the public and private sectors. The National Freight Corporation was a singular success, where the managers and lorry drivers bought up their business and transformed it and are now sitting on profits of over 400 per cent on their stake money.
3. Encouraging employee shareholdings when businesses are denationalised through employee preference schemes.
4. The range of measures to help small business, and the Enterprise Allowance to encourage people to set up on their own.
5. Some moves towards fiscal neutrality to make institutionalised saving less attractive, particularly with the abolition of life assurance premium relief.



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A

EMPLOYEE SHARE OWNERSHIP IN PRIVATISATION

Special arrangements have been made to encourage employee participation in all privatisations where a majority shareholding has been sold by stockmarket flotation. Annex A gives brief details for each relevant privatisation.

Typical Pattern of Arrangements

2. Arrangements for employees typically include:
 - a) an offer of free shares;
 - b) an offer of matching shares given free in proportion to shares purchased by the employee;
 - c) a special application form which gives the employee priority in the allocation of any shares that he may apply for in addition to the free and matching offers.

3. Guidelines limiting the value of the elements of an offer were laid down in 1980 as £50 maximum free offer, and overall cost of free and matching offers not to exceed an absolute maximum 5% of gross proceeds. The Guidelines have been adhered to - allowing for a rise in the free offer broadly in line with inflation.

4. Free and matching shares allocated to employees in privatisations are placed in trust for a minimum of two years and may not be sold or pledged as security during that period except in case of injury, disability, redundancy or retirement. Beyond this there is a further period up to seven years from allocation when the shares may be traded at the cost of losing some or all of their tax exemption.

Exceptions to the Typical Pattern

5. British Petroleum, where there was no free offer. The Cable and Wireless privatisation where matching shares were to be made available over a period as part of the company's employee profit sharing scheme. The British Telecom scheme, which will also include a discount on shares applied for in addition to the free and matching offers. The National Freight Corporation was an employee/management buy-out.



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6. The details of the British Telecom arrangements as announced by the Secretary of State in the House of Commons on 2 May are:

' Employees who work at least 16 hours per week for BT and who have been in continuous employment with BT from April 2 1984 until a date shortly before the flotation will benefit from a special scheme. They will be offered about £70 worth of free shares and for every share purchased by the employee the Government will provide a further two free shares up to a maximum of £200 of free shares for £100 of purchased shares. Employees will therefore have the opportunity to acquire about £370 worth of shares for an investment of about £100. As in past sales these shares will have to be vested in a trust for a minimum of two years.

In addition a discount of 10 per cent off the public offer price will be offered to all employees at the time of flotation on purchases of up to £2,000 worth of shares provided that they are held for a specific period. '

Arrangements during Subsequent Sale of any Residual Government Shareholding

7. No free or matching shares have been provided by the Government but special application forms have been distributed giving priority in allocation.

ENCOURAGEMENT OF SMALL INVESTORS IN PRIVATISATIONS

8. Arrangements to encourage applications by small investors (details in Annex B) have included:

- a) wide advertisement of sale and wide distribution of prospectus outside London;
- b) small minimum allotment size;
- c) preferential treatment in allotment by scaling down large applications more than small in oversubscribed flotations or by weighting any ballot in favour of small applications;
- d) opportunity to apply at the striking price in tender offers (thus helping inexperienced investors by removing the need for them to judge a price to bid).



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Exceptional arrangements

9. Britoil, a loyalty bonus with free shares in proportion to those held for a minimum period after the sale. This represents a discount, delayed in time, on the price of the shares, with a view to stimulating demand. British Telecom, special incentives to telephone subscribers (eg vouchers which can be offset against subsequent telephone bills). The British Telecom flotation is by far the largest privatisation.

SUCCESS OF POLICIES

10. Annex A shows the percentage of employees participating in privatisation issues and the number of shares allotted to them. Considerable success can be claimed with more than 90% participation in several issues. The intention is to encourage long term investment as illustrated by the minimum period for which free shares are held in trust.

11. The various measures to encourage small investor participation have also been successful although here it is less easy to claim that investment has been motivated by long term considerations. Where an issue is successful in the sense of oversubscribed at the issue price it is inevitable that some shareholders will sell out when dealings commence. Institutions will be anxious to buy if the allotment has been biased against them. A large reduction in the number of shareholders after the issue has been characteristic of the oversubscribed flotations as the table below illustrates:

	<u>Size of Offer</u>	<u>Times sub-scribed</u>	<u>Issue Price</u>	<u>Price on First Day</u>	<u>Initial No. of Allotments</u>	<u>No of Share-holders (Nov 83)</u>
	(£m)	(K)	(p)	(p)	(K)	(K)
British Aerospace ..	150	3.5	150	169	158	26.2
Cable and Wireless ...	224	5.6	168	197	150	26.1
Amersham Int.	71	24.6	142	190	63	7.7
A B Ports ...	22	33.7	112	138	37	8.3

The number of shareholders apparently fell by over 80% in the first year in the British Aerospace and Cable and Wireless sales.



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12. It is impossible to distinguish profit taking by the more professional 'stags' and the 'ordinary' small investor. The tender method is designed to reduce the scope for staggings (but will not remove it when small applications are allowed at the striking price). But the method is more complicated and in that respect may be less attractive to small investors. Efforts to encourage wider participation by favouring small applications will encourage stags to apply for a large number of small applications (there is no practicable cost effective way of preventing multiple applications).

13. Stagging is of course in no way peculiar to Government privatisations.

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EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS

A. Summary of Key Figures

Company (Date of Sale)	Maximum Value* of Incentives Per Employee	Percentage+ of workforce participating	Percentage+ of Issued Share Capital Held
BP (October 1979)	£500	43	0.25
British Aerospace (February 1981)	£499	74	3.6
Cable and Wireless (October 1981)	£300	99	1.4
Amersham International (February 1982)	£550	99	3.7
National Freight Company (February 1982)	£200 interest free loan for share purchase	23 ^φ	82.5
Britoil (November 1982)	£458	72	0.1
Associated British Ports (February 1983)	£311	91	4.3
British Telecom (announced arrangements)	£470	N/A	N/A

Notes:

* Maximum value of shares available free to an employee under both free and matching offers plus value of any other financial incentive.

+ Initially following sale.

φ Percentage of employees and pensioners involved.

EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS

B. Outline of Schemes*

Company (Date of Sale)	Free † Offer	Matching ^o Offer (Free: bought)	Other Financial Incentives
BP (October 1979)	None	Max £500 (1:1)	None
British Aerospace (February 1981)	£49.50	Max £450 (1:1)	None
Cable and Wireless (October 1981)	£50.00	£250 [‡] (1:1)	None
Amersham International (February 1982)	£50.00	Max £500 (1:1)	None
National Freight Company (February 1982)	(Management/Employee Buyout)		£200 interest free loans
Britoil (November 1982)	£58.50	Max £400 (1:1)	None
Associated British Ports (February 1983)	£59.33	Max £252 (1:1)	None
British Telecom (announced arrangements)	£70.00	Max £200 (2:1)	10% discount on up to £2000 of further shares

Notes:

- * All schemes include preferential application forms for further shares which give employees priority in allocation.
- ‡ Value of shares at time of privatisation which HMG was to make available over the life of the Company's profit sharing scheme.
- † At offer price.
- o By HMG or company Trust.

EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS

C. Take up of Offers (per cent eligible employees)

Company (Date of Sale)	Free Offer	Matching Offer	Preferential Application Forms
BP (October 1979)	N/A	50	43
British Aerospace* (February 1981)	89	41	1.6
Cable and Wireless* (October 1981)	99	99	25
Amersham International* (February 1982)	99	80	40
National Freight Company (February 1982)	(23% of employees and pensioners participated in the Management/Employee Buyout) ⁺		
Britoil (November 1982)	92	62	not available
Associated British Ports (February 1983)	90	38	2.9
British Telecom (announced arrangements)	N/A	N/A	N/A

Notes:

* Average employee holding estimated as: BAe £161, Cable and Wireless £585, Amersham International £1,680.

+ Directors, Employees, Employees, Immediate families, Pensioners formerly employed by the company, their wives and or widows/widowers were all eligible.

EMPLOYEE SHARE SCHEMES IN PRIVATISATIONS
D. Number and Value of Shares Involved

Company (Date of Sale)	Number of Shares Applied For	Number of Shares Allocated	% share* Capital Held
BP (October 1979)	Not available	Not available	0.25
British Aerospace (February 1981)	10,612,008	7,072,300	3.6
Cable and Wireless (October 1981)	3,785,833	3,785,833	1.4
Amersham International (February 1982)	2,014,140	1,828,290	3.7
National Freight Company (February 1982)	6,187,500	6,187,500	32.5
Britoil (November 1982)	580,610	580,610	0.1
Associated British Ports (February 1983)	1,856,875	1,736,965	4.3
British Telecom (announced arrangements)	N/A	N/A	N/A

Notes:

- * Issued share capital held by employees immediately following sale.

ARRANGEMENTS FOR SMALL INVESTORS

Company (Date of Issue)	Distribution* of Prospectus	Preference in Allocation	Any other measures
BP (October 1979)	Post Offices, Shareholders, Clearing Banks, Co-op Bank, TSB's	Yes	-
British Aerospace (February 1981)	Main Branches Lloyds, Clydesdale Bank, Bank of Ireland	Yes	-
Cable and Wireless (October 1981)	Main Branches Natwest, Ulster Bank, Hong Kong	Yes	-
Amersham International (February 1982)	Regional Stock Exchanges	Yes	-
Britoil (November 1982)	Post Offices, Clearing Banks, TSB's	Offer by Tender	Striking price Applications 1 for 10 loyalty bonus (after 3 years)
Associated British Ports (February 1983)	Lloyds Branches, Bank of Ireland	No	-
BP (September 1983) [†]	Main Branches of several UK Banks, Main Post Offices	Offer by Tender	Striking price Applicat _{ions}
Cable and Wireless (December 1983) [†]	Main Branches of several UK Banks, Main Post Offices	Offer by Tender	Striking price Applicat _{ions}
Associated British Ports (April 1984) [†]	All Branches of Lloyds Bank, Bank of Ireland	Offer by Tender	Striking price Applicat _{ions}

Notes

* Other than to Bank of England, Merchant Banks, Underwriters, Brokers and Receiving Banks.

+ Sales of residual holdings



STEPS TO PROMOTE WIDER SHARE OWNERSHIP

A 1981 survey by the Stock Exchange, the latest in a 6-year interval series shows:

% Distribution of Shareholdings

	<u>1963</u>	<u>1969</u>	<u>1975</u>	<u>1981</u>
Persons	54.0	47.4	37.5	28.2
Financial institutions ..	30.3	35.9	48.0	57.9
of which:				
Insurance Cos.	10.0	12.2	15.9	20.5
Pension Funds	6.4	9.0	16.8	26.7
Unit Trusts	1.3	2.9	4.1	3.6
Investment Trusts	11.3	10.1	10.5	6.8

The long run trend towards increasing indirect investment through financial institutions can be explained mainly by the growth of occupational pension schemes and the tax advantages they and life offices have been able to offer. The economic climate of the 1970s and 80s may have encouraged saving through deposit accepting institutions, especially building societies linked with home ownership.

2. The abolition of the investment income surcharge and of tax relief on life policy premia is likely to discourage saving through insurance-based investments and encourage direct share ownership.

3. The Business Expansion Scheme has the effect of encouraging wider share ownership although its primary purpose is to raise capital for unquoted companies. It gives tax relief of up to £40,000 per annum at the top marginal rate available to individuals who subscribe for new equity shares in qualifying unquoted trading companies. Recent figures show that some £44m has been raised by 29 of the 34 funds that have so far been approved under the scheme. The remaining funds plan to raise at least a further £8m. Best estimates suggest that around 80% - say £35m - would have been invested by 5 April 1984. And to this must be added amounts subscribed on a direct basis - not through a fund - under the scheme though these are thought to be small.



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4. In FSC Division's view the main barrier to wider share ownership is educational. There is no difficulty in getting advice from brokers or banks and no ground for the view that share investment is too complex for the ordinary saver. The public's perceptions of risk may be improved by the measures that may be introduced to implement Gower. But the changes afoot in the Stock Exchange are not thought by FSC to have much bearing on wider share ownership. Indeed commissions on small deals could rise after the abolition of the minimum charges; this was a short term response in New York when they abolished minimum commissions though in the longrun the emergence of new 'no frills' brokers may have offset this effect.

5. There may be a growing appreciation of the benefits of wider share ownership. But it seems unlikely that there will be any sudden or sharp reversal in the trends set out in paragraph 1 above.



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SHARE OPTIONS

Share options have been tackled by two previous items of legislation - in 1980 and 1982 - and by one, the most important, currently in the Finance Bill. The proposed legislation is aimed particularly at Directors and key employees. Subject to certain limits and conditions, it will remove tax from unrealised gains on the exercise of share options leaving just capital gains tax to be paid at the time of eventual disposal of the shares. This is expected to have the following beneficial effects:

- enable small and growing companies to attract key personnel without the need to pay high salaries;
- give ailing companies the chance to attract new talent looking for rewards in terms of longer term growth;
- help large and established companies retain (Particularly against foreign competition) and motivate highly valued executives;
- give employed individuals a chance of accumulating wealth, perhaps sufficient to enable them to start their own enterprise;
- encourage employee involvement and wider share ownership.

2. The 1980 legislation is of a different character. It links share options to SAYE savings arrangements and is aimed at employees within a company generally. It is thus principally concerned with motivation and encouraging wider share ownership. Some 292 schemes have been approved. Latest figures - April 1983 - show that shares to the value of around £350m have been granted under the 1980 scheme, and it is reckoned that some 150,000 employees have participated. This legislation complements that of the 1978 profit sharing schemes, the limits of which have been raised by the Government, and which also encourages wider share ownership. Finally, the 1982 legislation introduced a limited relief for non-approved option holders, allowing a spread of 3 years for payment of the tax chargeable on exercise of an option. This period is to be increased to 5 years, but only for schemes involving options granted before 6 April 1984 (later schemes will be expected to take advantage of the arrangements described in paragraph 1 above).

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3. The Department has been pressing for some years for an executive-type share option scheme. There was originally some discussion as to whether the rules ought to limit participation to unquoted companies but it was eventually decided that the scheme should be available widely, and Finance Bill proposals largely reflect what the Department asked for. There do, however, remain one or two points of difficulty. For example the rules as currently proposed would exclude from benefit of relief any person who has or would acquire a 'material' interest - more than 5% of the ordinary share capital - in the company. Mr Trippier, in particular, considers this too restrictive for the smaller company and has written to Mr Moore on the subject.

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DEPARTMENT OF TRADE AND INDUSTRY
1-19 VICTORIA STREET
LONDON SW1H 0ET

Telephone (Direct dialling) 01-215

5422

GTN 215

(Switchboard) 215 7877

Secretary of State for Trade and Industry

15 May 1984

John Redwood Esq
Policy Unit
10 Downing Street
London SW1

Dear John,

WIDER WEALTH OWNERSHIP

I enclose, as requested, a paper prepared by officials in this Department on wider wealth ownership. It covers privatisation issues; steps to promote wider share ownership; and share option schemes. My Secretary of State, who is abroad, has not had an opportunity to see the paper.

2 Callum McCarthy has asked me to apologise for the slight delay in putting this forward.

Yours sincerely,
Ruth Thompson

RUTH THOMPSON
Private Secretary