

PO-CH/NL/0220

PART C

Chex
Lawson

PART C

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PO -CH /NL/0220



PART C

CHANCELLOR'S PAPERS ON
EMPLOYMENT POLICY AND
LABOUR MARKET STATISTICS

Begin: 19/2/88

DD: 25 years

Ends: 29/3/88 (CONTINUED)

13/9/95

PO -CH /NL/0220

PART C

PART C



CH/EXCHEQUER	
REC.	19 FEB 1988 ✓
ACTION	CST
COPIES TO	

Prime Minister

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

I have become increasingly concerned about the damaging implications for people with incomes just above benefit levels of the combination of our tax, national insurance, community charge rebate and housing benefit policies. I would like to suggest an urgent review by officials of the options available to us to improve the position. Officials are already studying separately the question of Departmental responsibility for housing benefit.

The housing benefit issue was discussed by E(LF) in October. The Committee agreed then to confirm the conclusions reached in bilateral discussion between DHSS and Treasury: the taper for withdrawal of assistance with rent was raised from 60 to 65% for 1988/89, and from 65 to 70% for 1989/90. The second increase has not been announced; the Committee agreed that I should first be given time to consider the implications of the further steepening for housing policy. I have done so, and my firm conclusion - whether or not a wider review of the options is undertaken - is that we should not steepen the taper beyond 65%. The PES cost of holding the taper at this level would be £46m a year.

I do not propose any alterations in our proposals for rate or, later, community charge rebate tapers. This would not cause any technical problems, since community charge rebates will be administered separately from rent assistance. Community charges of course represent a much lower proportion of household income than rents.

The Problem

The poorest households, at or below the income support level, pay no tax or national insurance contribution and 20% of the community charge, and they get all their rent met by housing



benefit. The problem arises with those people in low-paid employment who pay tax and national insurance contributions, an increasing share of the community charge, and the higher rents that will result from rent de-regulation. We have here a real problem: a severe disincentive to take low paid jobs in preference to unemployment (here, of course, community charges have to be taken into account as well as rent); and low-earners paying a burdensomely high proportion of their net income in community charges and rent.

First, at present rates of income tax and with the 65% taper, a single man or woman aged 25 or over living alone with earnings not far above the income support level would get from a £50 increase in earnings only £8.95 a week more as cash in hand. As a maximum he would pay a 90.1% effective marginal rate where both housing benefit and community charge rebate were being tapered down. If the taper is increased to 70%, the same man would keep only £7.35, and the maximum effective marginal rate would be 93.4%. Reducing income tax would not help much with this problem, since housing benefit is calculated on net income. Even a 20% income tax rate would only reduce the effective marginal rate from 90.1% to 89.05%. So reducing tax rates would reduce housing benefit costs but leave the unemployment trap untouched. The graph attached at A illustrates what happens when the man or woman living alone has a standard rent of £40 a week and £5 a week community charge.

In London the unemployment trap and poverty trap will be even wider, because both rents and community charges will be higher. The man over 25 living alone would get income support at £33.40 if he stayed out of work. If he gets a job as, for instance, a hospital porter with pay of £145 a week, then with what will probably be a typical London de-regulated rent of £60 a week and a £6 a week community charge, his net disposable income after paying rent and community charge would be only £52.65. His reward for taking on full-time employment would be only £20.45 a week, less any work expenses like travelling to work.



Second, critics of the Housing Bill have understandably seized upon the high proportion of low-earners' income taken by rent even at present levels, and how the proportion will worsen as rents rise as a result of our housing policies. Tenants with quite low earnings will have to pay rent increases of £10 per week, £20 a week, or even more, entirely from their own funds. The graph at B illustrates the effect, again using a single man over 25 living alone as an example. It shows that in the worst case a tenant could pay almost 50% of his net income in rent. And if such a tenant had moved from a regulated to a de-regulated letting in London with an increase in rent from £30 to £60 a week, he would have to pay the whole of the increase himself if his gross pay exceeded £172 a week. That seems very hard to defend.

The numbers of people who could suffer the effects I have described are far from negligible. There are, for instance, about 170,000 single people over 25 in employment living in private rented and housing association accommodation at present. At the very least their mobility will be much reduced if we make no changes to the housing benefit arrangements; and there is very little incentive for people without a job to get one.

The problem is worst in London where rents are highest. The right way to solve it would be to increase London weighting and force employers to face the true costs of operating in London. But many of the low-paid on housing benefit are in the public sector. Unless and until their pay rises to reflect London costs, I think we must consider additional housing benefit for these groups: we could do this either by increasing the earnings disregard, thereby avoiding the unemployment trap, or by operating on the taper. If we do not do that, we shall have to continue significant subsidies (which will have to take account of rising housing costs in London and elsewhere) to bricks and mortar via local authorities and housing associations, and we will not be able to succeed in encouraging the private sector to make a



significant contribution to the supply of housing for poorer people. In the short-term, we must not in my view steepen the taper to 70% for 1989/90.

Proposal

I suggest we invite officials urgently to consider ways round these problems and produce costed options which we can consider collectively in the forthcoming PES round. As things stand, the effectiveness of our housing policies will be substantially and demonstrably reduced by the proposed housing benefit arrangements.

I am copying this minute to Nigel Lawson and John Moore.

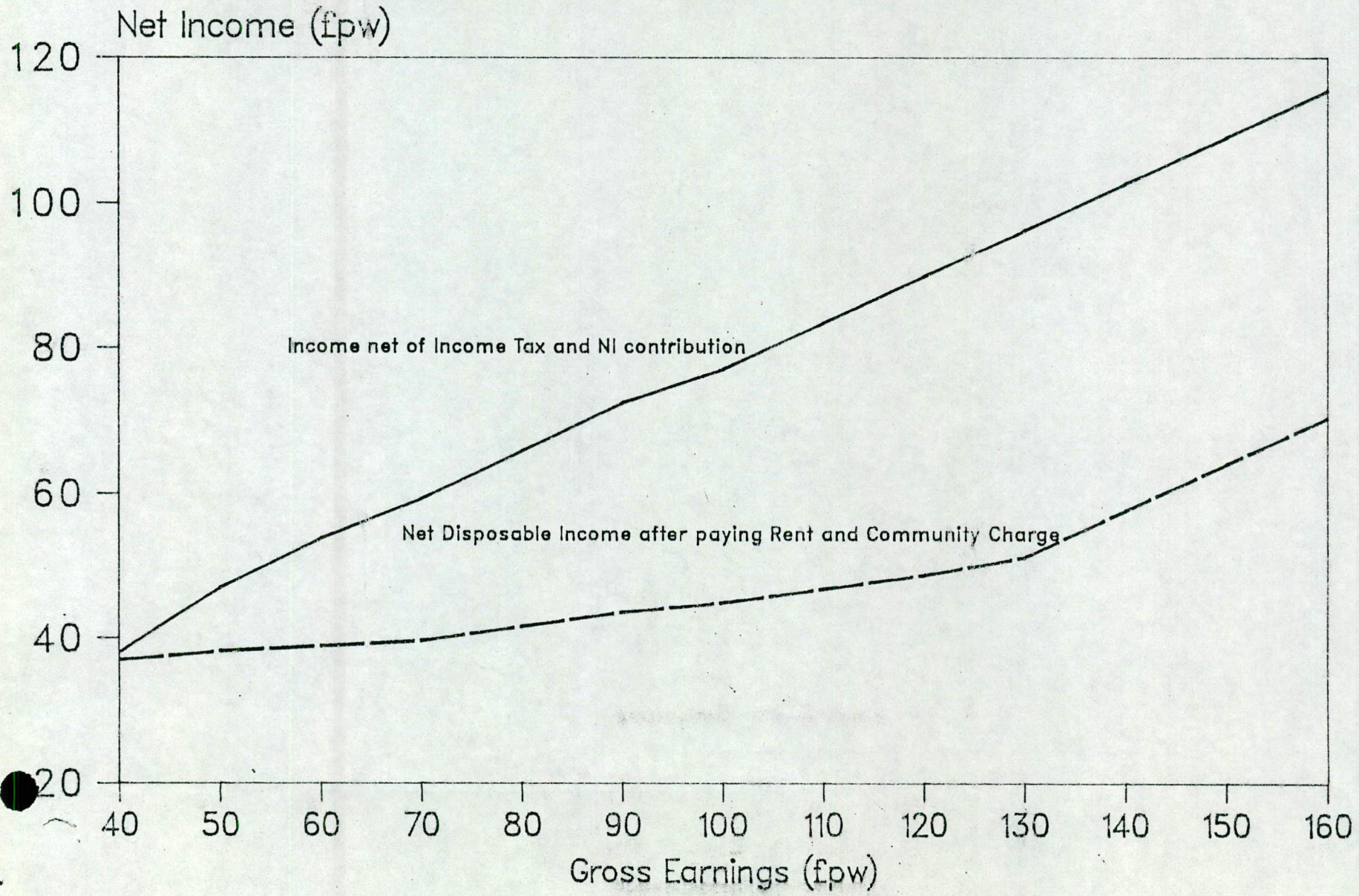
A handwritten signature, likely of Nigel Lawson, consisting of stylized initials.

N R

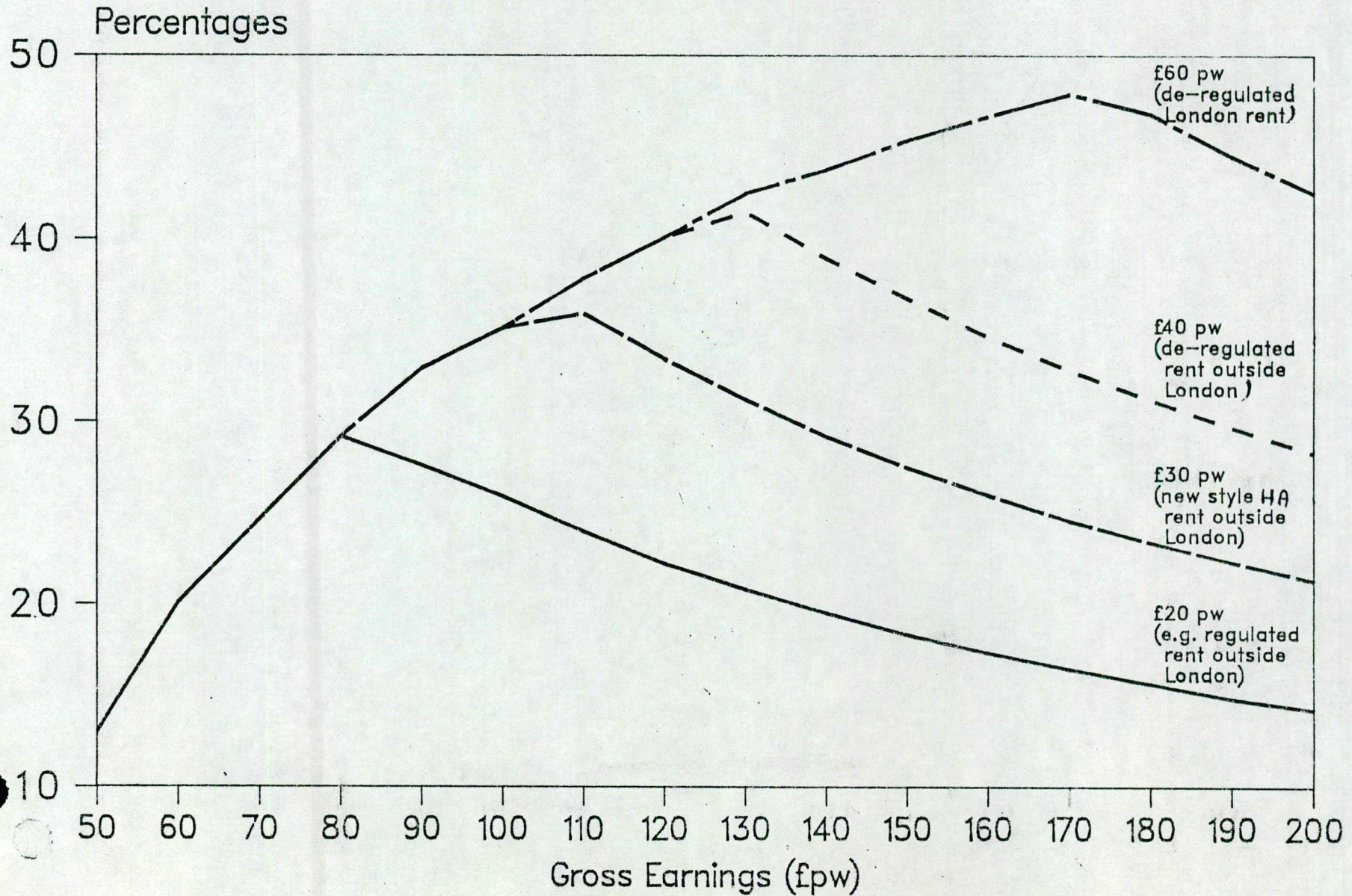
19 February 1988

MAN OR WOMAN AGED 25 OR OVER LIVING ALONE

With £40 pw Rent and £5 pw Community Charge – Tapers 70% and 20%



MAN OR WOMAN AGED 25 OR OVER LIVING ALONE NET RENT AS PERCENTAGE OF NET INCOME



I agree. Mr Ridley wants to increase housing benefit expenditure and to muscle in on your Survey negotiations with DHSS. The draft minute assumes you will want to make a tough and detailed response.

FROM: M GIBSON

DATE: 19 February 1988

- 1. MR MCINTYRE
- 2. CHIEF SECRETARY

- cc Chancellor -
- Sir Peter Middleton
- Mr Anson
- Mr Kemp
- Mr Turnbull
- Miss Peirson
- Mr Hawtin
- Mr Instone
- Mr Gilhooly
- Miss Sinclair
- Mr Tyrie
- Mr Call

JPm
19/2

Handwritten notes in red:
 I agree with you for a FP
 on X. (crossed out)
 about the interpretation of
 parents' earnings
 in the app
 I assume that HBS & Mthrs
 tests see you and calculate with
 of NICs as well as net of IT, to
 that value of NICs will not
 reduce IT, I will also
 check to know how
 all
 frags
 etc
 X
 not in
 attach to
 me
 Bowdler
 package.

HOUSING BENEFIT

Mr Ridley's minute of 19 February to the Prime Minister.

2. Mr Ridley's objective is to secure (1) abandonment of the £46 million savings from the increase in the housing benefit taper from 65 to 70 per cent, due to be announced in October this year and to take affect from April 1989, and (2) further easements in the housing benefit for those above income support level such as a higher earnings disregard.

3. We understand from DOE officials that the references in the minute to incentives reflect Mr Waldegrave's views rather than the Secretary of State's. Mr Ridley is interested in improving the presentation of housing policy.

4. As we see it, you have two options:

- (1) to resist these proposals outright;
- (2) to resist, but agree to further work being done by officials on easements such as keeping the 65% taper, as long as equivalent savings options are also looked at. You would insist on no addition to existing resources.

5. LG favour option (2). They believe it will put you in a more reasonable light. You would write making the following points.

First, the present position reflects Survey decisions; you are not happy about having these reopened. There is inherently a conflict between a housing benefit system which targets most closely on those in need (which is what we are trying to achieve) and one which tries to reduce the poverty trap through a gentler withdrawal rate. The Ridley approach is therefore bound to lead to higher public expenditure, and that is unacceptable. In any case the problem identified by Mr Ridley, if it exists at all, seems largely confined to a relatively small group, notably single people in London.

6. You would go on to say that you are prepared to consider alternatives, but only on the basis of fully agreed offsetting savings to come out of either Mr Ridley's or Mr Moore's programmes. Any alternative basis would be unacceptable, in that it would be reopening previously agreed Survey decisions.

7. ST favour option (1). We believe that there is a good case to be made in defence of the agreed taper increase. Furthermore, as soon as you concede that Mr Ridley has a point on the taper, the chances of a nil cost outcome are slim. Mr Ridley wants to ease the housing benefit scheme for those above income support level, not to trade off one savings measure against another. Sensible savings alternatives to the taper, such as modifying 100 per cent rent increase protection, would require a lot of detailed work by officials and then involve a major change in the reformed scheme only a year after its introduction. Finally, agreeing to further work by officials allows DOE right into the heart of your Survey negotiations with Mr Moore on the income support rates.

8. In any event, following the Ministerial correspondence initiated by Mr Ridley last autumn, officials have already done some work on the effects of the new housing and housing benefit policies. This has shown that Mr Ridley's general concerns about the proportion of people's incomes going in rent under the new policies have not been justified; the problem, such as it is, is confined to single people paying high rents, mainly in London.

9. A draft reply on the basis of Option (1) is attached.

M. Gibson

M GIBSON

DRAFT MINUTE TO THE PRIME MINISTER

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

I would like to comment on Nick Ridley's minute to you of 19 February.

Nick proposes to reverse last year's Survey decision to increase the income taper for housing benefit assistance from 65 per cent to 70 per cent in April 1989. This was agreed by John Moore and endorsed collectively in E(LF). It will be announced in October, at the same time as we are announcing a general uprating of benefits and after the Housing Bill has become law.

Nick also proposes that officials work up proposals for further concessions which would increase still further the cost of housing benefit and the number of people on benefit. This has already risen steeply from £1.2 billion paid to 5½ million households in 1979-80 to £5.4 billion paid to 7 million households in 1987-88. One in three households now receive housing benefit.

Our policies have hitherto been directed at containing this growth; now Nick wants to respond to our critics by changing direction, with proposals that would bring more people into benefit dependency and the poverty trap.

It is important to be clear how the reformed housing benefit system will respond to higher rents for people with incomes above income support level in receipt of housing benefit. The answer is that, provided their incomes remain unchanged, 100 per cent of

any rent increase will be met in full by benefit. This is more generous than the current scheme, where only 60 per cent of any rent increase is met for those not on supplementary benefit.

There will be an income taper to ensure that, if income increases, housing benefit entitlement will be reduced. It is right, and consistent with our policy of targeting help on those in greatest need, that we should require those with higher incomes to pay more towards their housing costs.

Under the reformed scheme, the effect of raising the income taper in combination with increases in rents is that, generally, the proportion of net income absorbed by rent for those on low incomes will remain low. This is because the protection provided by the reformed scheme against rent increases far outweighs the effect of a 5 per cent increase in the taper.

For example, a pensioner couple with income of £90 and rent of £40 will pay only 17 per cent of their income in rent with a 70 per cent taper. The equivalent figure for a married couple with two children and gross earnings of £140 a week is 20 per cent. These proportions are well below those which many homeowners would expect to pay in mortgage repayments.

It is true that single people in work on moderate earnings may pay more. Some may find themselves paying over one third of their net incomes on deregulated rents. But this is not a consequence of the housing benefit system. It reflects the fact that we have decided that the starting point for the operation of the taper -

their income support levels - should, rightly, be much lower for single people than those of pensioners and families. So single people in work lose entitlement to housing benefit at lower levels of income than families.

We could tackle this by increasing benefit levels for the single unemployed. But this hardly seems attractive.

Nor will holding the taper at 65 per cent really help. For a rent of £20 per week, the maximum proportion of net income that a single person over 25 can pay in rent with a 70 per cent taper is about 30 per cent. For a rent of £40 per week, the maximum is 42 per cent. Reducing the taper to 65 per cent only reduces this percentage marginally, to 40 per cent.

As far as the unemployment trap is concerned, the reward of £20 a week for the job as a hospital porter mentioned by Nick is of course twice that which we will be offering to those taking on a training course. And it is worth remembering that even after paying high proportions of their net income in rent, singles in work are still left with more for other expenses than those out of work. Furthermore, as deregulation takes effect, earnings will be rising, so that the gap between in and out of work income will also increase as long as we continue to uprate benefits in line with prices.

It does not seem to me at all hard to defend the fact that someone with a gross income of £172 a week (over 80 per cent of average earnings) should have to pay a rent increase from £30 to £60 himself. One of the main planks of our social security policy has

been to reduce dependence on the benefit culture, particularly for young single people. It would surely run completely contrary to this to change the housing benefit system so that such people can claim benefit even when they are earning close to the average wage.

It is also important not to exaggerate the effects of the tax and benefit system on those on low incomes in work. For most people the £50 a week pay rise mentioned by Nick would lift them entirely off benefit and therefore out of the poverty trap altogether. There are only about 40,000 single people in work with marginal tax rates over 70 per cent. Measures to extend housing benefit entitlement would increase this number, not reduce it.

As Nick admits, his problem is essentially confined to a few single people living in London where deregulated rents will be high; a small fraction of the 170,000 he mentions. It would be quite wrong to make changes to a national housing benefit scheme on this basis; the deadweight cost would be enormous.

I do not believe that our housing policies will be adversely affected by the reformed housing benefit scheme, including the higher taper. On the contrary, we can clearly explain why the reverse is true.

It is John Moore's budget which will increase as a result of Nick's proposals. Nick is not offering any offsetting savings. It must be for John to take account of Nick's views and argue the

case for higher expenditure with me through the usual Survey procedures, if he wishes to do so.

I am copying this minute to Nigel Lawson, Nick Ridley and John Moore.



mpw

Ch/ Sorry to have misrepresented your comments. I should have recorded that I did speak to FP/ETS who confirmed that Ridley calculation is correct, and that you were right about HB etc being calculated post IT and NIC

Do you want any other advice commissioned?

2. CST's office confirm that he agrees with you that he should still write. To issue first thing I believe. mpw 24/2

[Handwritten signature]

CH/EXCHEQUER	
REC.	23 FEB 1988 23/2
ACTION	CST
COPIES TO	
From the Private Secretary	

CONFIDENTIAL



10 DOWNING STREET
LONDON SW1A 2AA

22 February 1988

Dear Roger,

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

The Prime Minister has seen your Secretary of State's minute of 19 February. She agrees that officials should be invited, following the Budget, to address the problems outlined in your Secretary of State's minute.

I am copying this letter to Alex Allan (HM Treasury) and Geoffrey Podger (Department of Health and Social Security).

Roger Bright, Esq.,
Department of the Environment.

(PAUL GRAY)

Spoke to Jill

Yours,
Paul

Ch/ear
Unfortunate that CST letter didn't get out before this

mpw

More unfortunate that Paul in his 23/2 min. is a mistake as a paragraph out. As you asked for the paragraph marked X. The gov't got a separate question & answer. I spoke to which I did with a quick answer.

CONFIDENTIAL



FROM: MISS M P WALLACE
 DATE: 22 February 1988

PS/CHIEF SECRETARY

cc PS/Financial Secretary*
 Sir P Middleton
 Sir T Burns*
 Mr Anson
 Mr Kemp
 Mr Turnbull
 Mr Culpin*
 Miss Peirson
 Mr Hawtin
 Mr Instone
 Mr Gilhooly
 Miss Sinclair
 Mr Gibson
 Mr McIntyre
 Mr Tyrie
 Mr Call

(* with copies of Mr Ridley's
 minute of 19 Feb and
 Mr Gibson's submission
 of 19 Feb)

HOUSING BENEFIT

The Chancellor has seen Mr Gibson's submission of 19 February. He would be grateful if FP could look at Mr Ridley's poverty trap calculations (paragraph 2 on the second page of his minute) and let him have a note on how these figures would be affected by the Budget package.

Mpw.

MOIRA WALLACE



Inland Revenue

Policy Division
Somerset House

→ Jonathan
par

FROM: ANGELA RHODES
22 FEBRUARY 1988

- It is very much for your judgment whether you wish to include in your letter to Lord Young something on para 9 below. I have added an alternative para. to the draft - case you want to consider something on these lines. p 24/2*
1. MR LEWIS
 2. MR BEIGHTON
- FINANCIAL SECRETARY

MR PADDY ASHDOWN: LETTER OF 25 JANUARY 1988
LORD YOUNG: LETTERS OF 9 FEBRUARY 1988
CRICKET ST THOMAS ESTATE

MISC 133 Aspects

1. In view of Lord Young's letters, you will wish to have this report before the meeting of MISC 133 arranged for Wednesday 24 February.

Mr Ashdown's Letter

2. Mr Ashdown has written to you previously (on 18 January 1987) about this case. He had also written to the then Financial Secretary (19 March 1984) on much the same matters. The folders containing the previous correspondence are attached. The Inspector of Taxes dealing with this case has sought since 1984 to establish the employment status of a number of categories of workers engaged by the Estate. In the light of the facts and the law the Inspector is satisfied that herdsmen may be treated as self-employed. He is also satisfied that milkroundsmen and shop managers engaged by the Estate are, in fact, employees.

cc PS/Chancellor
Mr Culpin
Mr MacAuslan
Mr Cropper
Mr Tyrie

PS/Economic Secretary

Mr Isaac
Mr ~~Parker~~ *Painter*
Mr Beighton
Mr P Lewis
Miss Rhodes
Mr Marshall
Mr Jarvis
Mr Suttle
Mr Carr
PS/IR

3. Payments have in the past been made to milkroundsmen and shop managers without operating PAYE. In the circumstances, the Estate, as the employer, is liable to pay the tax which should have been deducted for a period of six back years. This can, of course, be difficult for an employer and the Inspector of Taxes recognises this. In order to avoid asking the Estate to pay the full amounts of tax due in law back to 1981/82 - the £95,000 and £62,000 to which Mr Taylor refers in his letter - the Inspector had suggested a compromise.
4. The proposed compromise was that the Inspector would accept 'voluntary' payments for back years from individual milkroundsmen under Schedule D. The Inspector would then only require the Estate to pay the back tax, under Schedule E, for those milkroundsmen who had not paid their Schedule D tax. This was a very reasonable and generous compromise offer.
5. The Estate, through their agents, then suggested that shop managers - about whom the Inspector had only become aware in 1986 - could be treated in the same way as the milkroundsmen. The Inspector accepted this. Mr Taylor is incorrect when he says that the Inspector insisted on the inclusion of shop managers in the compromise agreements.
6. The Estate have not accepted the compromise. In the circumstances, in order to resolve the matter the Inspector had no alternative but to raise formal assessments on the Estate for the tax which should have been deducted under PAYE back to and including 1981/82. The Estate has appealed against the assessments. The case may now proceed to a Commissioners hearing at which the employment status of the milkroundsmen and shop managers and then the outstanding tax may be determined.
7. Mr Taylor has accused the Inspector of harassment and has suggested that the same rules are not being applied consistently across the country. We can find no evidence of harassment and consider that the Inspector has acted quite

correctly. (As a matter of interest, we understand that a number of the milkmen took legal advice over their employment status and were advised that they were employees.) Mr Taylor seems previously to have sought a 'political' solution to the Estate's problems rather than using the Commissioner and Court appeal procedures available to him. On the question of consistency, Mr Taylor refers to 'other businesses' where he says the same rules are not being applied. Without details of these we are unable to comment but if he is able to supply such details we shall, of course, examine them.

Lord Young's Letters

8. Lord Young's letter to you of 9 February (copied to the Secretary of State for Social Services) raises some wider issues. There are two distinct points here. First the difficulty people may have in knowing whether they are self-employed or employed. Second, where the dividing line on employment/self-employment should be. On the first point the new procedures introduced last year for giving decisions on employment status appear to be working satisfactorily. So far we have received no complaints. The DHSS are also checking how these procedures are working in their offices. In addition we are about to publish an improved version of our leaflet IR56 "Employed or Self-Employed?" - revised in discussion with the EDU and DHSS which helps individuals to find out their employment status. On the second we think that the question "is someone in business on his own account?" to be the right one. Wherever the dividing line is drawn there will be cases at the margin. But there is no evidence that the existing rules are any deterrent to growth in genuine self-employment and any change to deem employees to be self-employed (as the EDU have advocated in the past) would remove the existing tax stimulus to genuine self-employment.

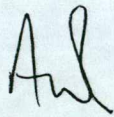
9. We do not think you will want to let what Lord Young said in his letter to Mr Ashdown pass without comment. This is not an isolated instance ~~and~~ DTI Ministers publicly implying that

This case predates the new procedures of course. Had they existed several years ago, the problems here would not have arisen (or at least would have been far easier)
JMB

something is amiss without first giving Treasury Ministers the opportunity to check on the facts and reply. (See also what Mr Maude said about the Profit Related Pay Rules in his letter of 16 February to Mrs Chaplin of the IOD - sent before he had seen the Paymaster General's reply to Mrs Chaplin.)

10. Mr Cope's references to taxation aspects in the Debate on self employment on 15 February (referred to in the draft letter to Lord Young) were based on briefing we supplied.

11. We suggest the attached draft replies to Mr Ashdown and Lord Young. They have been prepared in conjunction with Mr Marshall of our Deregulation Unit.



A M RHODES

February 1988

Paddy Ashdown Esq MP

You wrote to Nigel Lawson on 25 January enclosing this letter from Mr W J D Taylor of the Cricket St Thomas Estate, Chard, about the employment status of herdsmen, milkroundsmen and shop managers engaged by the Estate. Lord Young has also copied to me your letter to him of the same date and his reply of 9 February. I have not been able to let you have a reply sooner because I wanted a full report from the Inland Revenue.

I wrote to you on 23 March 1987 about herdsmen and milkroundsmen. I enclose a copy of that letter. As you will know, the Inspector of Taxes has looked at the employment

status of herdsmen, milkroundsmen and shop managers working on the Cricket St Thomas Estate. On the basis of his interpretation of the facts and the law he is satisfied that the herdsmen may be treated as self-employed but that the milkroundsmen and shop managers are engaged and work on terms which make them employees of the Estate. In these circumstances, the Estate should operate PAYE on payments made to the milkroundsmen and the shop managers. Where PAYE has not been operated, in circumstances where it should have been in law, the Estate as employer is liable to pay the tax and NI contribution which should have been deducted.

The Inland Revenue fully appreciate that asking an employer to pay back tax in respect of up to six years can cause problems for the employer. Because of the Estate's difficulties the Inspector suggested a compromise as long ago as October 1986. The Inspector

agreed to accept payments of tax under Schedule D from the individual milkroundsmen involved. The Estate would then only be required to pay Schedule E tax in respect of those individuals who had not paid any Schedule D tax.

It was the Estate, through their agents, who, I understand, then suggested that the compromise proposal should include shop managers, and this was accepted by the Inspector. There was no insistence on their inclusion by the Inspector as Mr Taylor suggests.

The Estate has, however, felt unable to accept this compromise without waiting to see how much tax the Inspector can collect under Schedule D. But that would have meant that the Estate would not be accepting its liability for Schedule E tax for the previous years. In the absence of agreement the only course left open to the

Inspector was to raise formal assessments on the Estate in respect of all of the tax which should have deducted under PAYE. The Estate, if it disagrees with the assessments, is entitled to ask for the matter to be determined by the independent Tax Commissioners. I understand that the Estate has now lodged such an appeal.

As I explained in my earlier reply, the Commissioners are only able to address the strict legal position - whether the assessments for tax which should have been collected under PAYE are correct. In the circumstances, however, it seems that a hearing before the Commissioners is the best way forward and will give the Estate the opportunity to put the case that its milkroundsmen and shop managers are, in its view, self-employed.

Finally, Mr Taylor suggests that the Estate is being unfairly

treated by the Inland Revenue over this matter and that the same rules are not applied across the country. The Revenue assure me that they are handling the Estate's affairs fairly. Indeed, I understand that the Estate's agents have confirmed this in recent correspondence. I am satisfied that the Revenue have acted quite correctly and moreover have made significant attempts to reach a compromise solution. On the question of our tax laws, the same rules apply in all parts of the country and all Inspectors of Taxes are given the same instructions and guidelines. Without details of the other businesses to which Mr Taylor refers I cannot comment on alleged differences in treatment, although if you are able to provide details I shall be pleased to look into the matter. In this particular case, however, I can assure you that the Revenue are simply ensuring to the best of their ability that the Estate is being treated correctly

under income tax law. As Mr Taylor disagrees with the Inspector's interpretation of the facts and the law, the way forward is for the matter to be determined by the Commissioners.

You also suggest that the Revenue's actions are contrary to the Government's policy on encouraging self-employment. This is not so. The Revenue are simply applying the general employment law. Where workers are engaged on terms which make them employees, they should be treated as such. Treating them as if they were self-employed would not change the way they work or encourage risk-taking and enterprise which goes with self-employment.

I hope that this fully explains the position.

DRAFT

February 1988

The Rt Hon Lord Young of Graffham
Secretary of State for
Trade & Industry
1-19 Victoria Street
LONDON SW1H 0ET

Your ref: DC1 ADT

You wrote to me on 9 February enclosing correspondence you had had with Paddy Ashdown MP about the employment status of workers on the Cricket St Thomas Estate. I have also received a similar letter from Mr Ashdown. I enclose a copy of the reply I am sending today.

The correspondence concerns a long running dispute which has now come to a head. The local Inspector of Taxes, with the support of specialists at his Head Office, is fully satisfied that the way in which the milkroundsmen and shop managers are engaged and work means that in law they are employees of the Estate. The Estate has been

unable to accept this view. The Inspector has made every attempt at a compromise settlement covering earlier years but to no avail. The only course of action left was for the Inspector to raise formal assessments on the Estate for the Schedule E tax which should have been deducted under PAYE. This has enabled the Estate to appeal to the Tax Commissioners.

Wherever the borderline is drawn between employment and self-employment there will be cases of doubt on that borderline. The new procedures and instructions we have introduced with the DHSS are, as far as we can tell, working well within our local office network. Mr Taylor's case, of course, predates these new arrangements.

The other point is where the dividing line for employment status should come. For reasons we have discussed in the past (and given by John Cope in the recent debate on

self-employment (OR 15.2.88 col 740)) this cannot be entirely at the taxpayer's option. To do so would devalue the incentive for genuine business start-ups.

Employment status is based not on tax or social security law but on general employment law. This draws the line at the point at which the question is asked 'is the individual in business on his own account?' If the line were drawn elsewhere there would be people classed as self-employed who would not in reality be in business on their own account. There would thus be no stimulus for these people to become genuinely self-employed risk-takers and entrepreneurs. Such a change would be likely to damp down the substantial increase in the number of genuinely self-employed we have seen in recent years.

As to the operation of the new provisions for joint Inland Revenue/DHSS decisions on

employment status, the Revenue tell me that they are aware of no problems having emerged so far. The Revenue are about to bring out the revised version of their leaflet IR56 'Employed or Self-Employed' which has been agreed in draft with your officials and DHSS. I think we should wait until we see how that is received before going again over this well-tilled ground.

Finally, I was surprised to see that in your letter to Paddy Ashdown you decided to comment on the substance of Mr Taylor's complaint, and the issues which you felt it raised, before waiting to see my reply.

I am copying this to John Moore.

Finally, if I may say so, I thought it was a pity that you decided it was necessary in your letter to Paddy Ashdown to comment on the substance of Mr Taylor's complaint, and the issues you felt it raised, in advance of my reply. I handle a large number of complaints about the Inland Revenue, and experience suggests that it is ^{always} better to await a report from the Department before forming a view on the substance and the terms of an appropriate reply.

NORMAN LAMONT

NORMAN HAMMONT M



the department for Enterprise

The Hon. Francis Maude MP
Parliamentary Under Secretary of State for
Corporate Affairs

Mrs Judith Chaplin
Head of Policy Unit
Institute of Directors
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MC. MORCH

MC. CULPIN

MC. MACAUSLAN

MC. FLANAGAN

MC. TYKIE

PS/IC

Direct line
Our ref
Your ref
Date

215 4417

16 February 1988

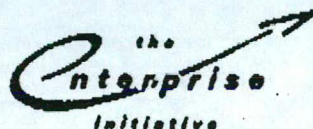
Dear Judith

Thank you for your letter of 18 January which I welcome as a positive reinforcement of the commitment of the IOD to supporting the Government's deregulation policy. I am pleased to take this opportunity to stress David Young's and my continuing commitment to improving the climate for enterprise and business growth through our deregulatory policies. Indeed, you will have seen in our recent White Paper that we are ensuring that an approach which minimises requirements placed on business becomes an integral part of the work of the whole of the DTI. We are continuing to work with our colleagues to ensure that the cross-Whitehall momentum of the initiative increases in pace.

I share your concern that, in spite of these efforts, the overall burden placed on business by Government requirements remains too high. Of course, there are areas where it is entirely proper that Government must act to protect the public interest - in my role as Minister for consumer affairs I was constantly made aware of where some of these areas may be. Nonetheless, I agree that in all cases we must weigh carefully the balance between costs and benefits and ensure that, even when some regulation is needed, it is the least costly and most effective for both businesses and those it is designed to help or protect.

I agree, therefore, with the point of principle which you make, that a proper assessment of business costs should be made on detailed proposals for implementation which will impose requirements on business, whether or not broad policy directions have already been decided. I am concerned that there seem to have been cases where this approach has not been taken. Of course, now that the compliance cost procedure is

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the department for Enterprise

2

becoming firmly bedded down, future policy decisions should not be taken without CCA analysis as part of the material on which Ministers can base judgements.

As you know the EDU are seeking to ensure that CCAs are increasingly seen as working, developing documents which are drawn up in a preliminary way as early as possible in the gestation process of new or potential proposals (whether domestically or in the EC). They should increasingly be part of the consultation process with business, giving the chance for early business feedback to be given proper weight. We intend also to give more publicity to the availability of CCAs which are drawn up, another point which I know you have previously raised with us.

I agree also that, in any reviews of existing regulatory requirements, the principles of cost/benefit analysis should be applied. In this context in particular, I welcome the survey of your members which you are carrying out and look forward to discussing the results with you.

You cite two specific examples of where you feel unnecessarily burdensome requirements have been or may shortly be imposed on business.

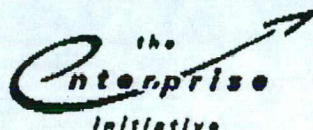
PROFIT RELATED PAY (PRP)

If, as you say, businesses are discouraged from operating PRP schemes because the rules are thought to be too restrictive, then this would be a matter of concern. Your questions on how the Revenue applied the CCA procedure in this case are of course primarily for the Inland Revenue, and I am copying your letter to Norman Lamont at the Treasury so that he can reply to you direct.

COPYRIGHT, DESIGNS AND PATENTS BILL

This Bill was indeed conceived before the introduction of the CCA procedures, and has been widely welcomed as an overdue reform, although there are inevitably areas where opinions differ as to the best way to go. There is a difficult balance to be struck between the needs of industry and commerce for ready access to information and the need for those who provide information to have adequate recompense. We have looked again at the case of copying for commercial research purposes in the light of these considerations. You will be pleased to know that we have decided that, given the importance of assuring continued access by industry and commerce to information of all kinds without unnecessary bureaucratic obstacles, it is better to allow the existing exceptions to copyright to remain.

RH2DCU





the department for Enterprise

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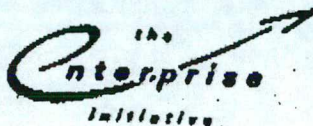
I am grateful to you for your positive and supportive letter, and look forward to continuing to develop the deregulation initiative.

I am copying this letter to Norman Lamont.

A handwritten signature in black ink, appearing to read 'Francis Maude'. The signature is written in a cursive style with a long horizontal stroke at the end.

FRANCIS MAUDE

RH2DCU



Copy no / of 17 copies

From: I SCOTTER

Date: 23 February 1988

CHANCELLOR

cc: PS/Chief Secretary
 PS/Financial Secretary
 Sir P Middleton
 Sir T Burns
 Mr Anson
 Mr Kemp
 Mr Culpin
 Miss Peirson
 Mr Instone
 Mr Riley
 Miss Sinclair
 Mr McIntyre
 Mr Gibson
 Mr Tyrie
 Mr Call

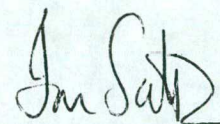
HOUSING BENEFIT

You asked how Mr Ridley's poverty trap calculations would be affected by the Budget package (Miss Wallace's minute of 22 February).

2. The table below compares his figures with similar calculations after the Budget measures, including the increase in personal allowances which you proposed at yesterday's Overview.

3. The Budget measures have hardly any effect on the maximum marginal tax rates and only a small effect on the net income from earning an extra £50 a week. This is the result of the net income basis of benefit withdrawal. With a 65 percent rent taper and 20 percent rates taper, each one percent point cut in the basic rate causes a 0.85 percent point increase in the effective withdrawal rate of housing benefit. The total marginal rate only goes down by 0.15 percent points.

	Mr Ridley's figures	After Budget
Maximum marginal rate with earnings under £100 a week		
65 percent rent taper	90.1%	89.8%
70 percent rent taper	93.4%	93.2%
Cash gain if increase earnings from £50 to £100 a week		
65 percent rent taper	£8.95	£9.50
70 percent rent taper	£7.35	£7.75



IAN SCOTTER

CONFIDENTIAL

papers psc

M

FROM: P J CROPPER
 DATE: 23 February 1988

FINANCIAL SECRETARY

*1 agree with
 Mr Cropper*

cc Chancellor
 Chief Secretary
 Paymaster General
 Economic Secretary
 Mr Culpin
 Mr MacAuslan
 Mr Tyrie
 Mr Call
 Miss A Rhodes IR
 PS/IR

EMPLOYMENT AND SELF-EMPLOYMENT

I see that Lord Young has written (9 February) suggesting another look at the criteria for determining whether someone is employed or self-employed, and a review of the operation of the new arrangements for IR/DHSS decisions on status.

2. You may recall that I was asked to arrange a meeting with the IOD (Mrs Chaplin and Mr Sandy Anson), and representatives of the Inland Revenue and the Enterprise and Deregulation Unit. This was held on 3 December: Mr Marshall represented the Revenue. A useful two hour discussion took place, but I did not feel that the IOD or EDU went away very content. Their main concerns were:

- (i) Firms are not taking on temporary workpeople to deal with bottlenecks, because once they are classified as employees it becomes difficult/impossible to get rid of them again. Why cannot firms be allowed to take people on on a contract basis, such that the temporary "employee" is categorised for tax and employment law as self-employed? Jobs that might otherwise have been created are not being created.

(ii) There has been much aggro in recent years about classification and re-classification of work-people as employed or self-employed. The upshot is that many of them prefer to stay in the black economy.

(iii) Immense complications arise where persons have multiple employments. Could not the very fact of having multiple employments be used in some way as an indicator of self-employed status?

3. As to the working of the IR/DHSS joint system for determining status, I can only state that it has created a nightmarish chaos in the case of my own wife. She teaches music in two separate schools, on a per hour basis, and has private pupils at home. For ten years until 1986 she was treated as self-employed in respect of both IR and DHSS.

4. In early 1987 School A was told to start treating her as an employee for NI purposes, with the implication that IR Schedule E treatment would follow. I wrote to the DHSS for clarification in April 1987: they finally wrote back in December to say my wife was definitely self-employed in respect of School B, but that the position at School A was a different matter and I would have to write to them separately about that. I did. No reply six weeks later.

5. Meanwhile headmasters and bursars engage in endless correspondence and my wife continues to purchase self-employed NI stamps in respect of work at one school, while the other school regularly deducts for NI as if she were an employee. To the detriment of cash flow, in what is an income of only a matter of £5,000 a year or so, in toto.

6. I understand that peripatetic music teachers are being subjected to a lot of hassle over tax and NICs at the moment. It is true that their basis of remuneration is often rather complicated - but it also unusual for them ever to earn very much money.

Conclusion

7. My own conclusion, from experience and hearsay, is that the tax system is not working smoothly at the interface between employment and self-employment. If we do accept Lord Young's proposal, I think we are going to find ourselves thrown on the defensive. My own suspicion is that the law needs re-examining, in respect of the definition of self-employment. I would even go so far as to wonder whether we do not need an entirely new set of criteria for deciding between Schedule D and Schedule E treatment. But not before the Budget.



P J CROPPER

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FROM: MISS M P WALLACE

DATE: 25 February 1988

[Handwritten signature]

BF
22/3

PS/FINANCIAL SECRETARY

cc Chief Secretary
Paymaster General
Economic Secretary
Mr Culpin
Mr MacAuslan
Mr Tyrie
Mr Cropper
Mr Call
Miss A Rhodes IR
PS/IR

EMPLOYMENT AND SELF-EMPLOYMENT

The Chancellor has seen Mr Cropper's minute of 23 February, and has commented that he agrees with his conclusions.

M.P.W.

MOIRA WALLACE

CONFIDENTIAL

BF 29/2

2/3

~~BF 4/3~~

CH/EXCHEQUER	
REF	26 FEB 1988
RE	CST
COPIES TO	

2/2

BF 16/3

Prime Minister

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

I have seen Nicholas Ridley's minute to you of 19 February, and your reply of 22 February.

I do not rule out further examination of options by officials, provided it is clearly understood that the social security dimension of this study is strictly limited to housing benefit. I was given a clear remit from colleagues in the last Survey round to find reductions in the social security programme, and reached agreement with John Major only after an exhaustive examination of other possibilities. The taper changes seemed to me then - and still seem to me - the most acceptable way of delivering a saving. The points Nick makes are valid, but they were all clear at the time the original decision was made to increase the tapers, and were equally clear at the time this decision was confirmed by colleagues in E(LF).

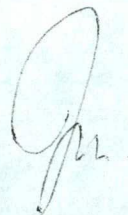
I also think it important to remember the benefit context of this decision. Expenditure on housing benefit is substantial, has grown rapidly and has proved very difficult to restrain. There will be further substantial increases in expenditure as a result of current initiatives on housing policy and the community charge: if anything, the effects of these look even more substantial now than when E(LF) considered this subject in October.

I would expect these points to be given due weight by the officials looking at this area. I would also see this very much

E. R.

as an exercise to be completed before the next Survey round gets under way so that Nick and I can consider our positions in that context, in the light of official advice.

I am copying to Nick Ridley and Nigel Lawson.

A handwritten signature in black ink, consisting of a large, stylized capital 'J' followed by a smaller capital 'M' and a period.

JM
26 February 1988

CONFIDENTIAL

FROM: A J MEYRICK

DATE: 26 FEBRUARY 1988

CHANCELLOR

cc Chief Secretary
 Sir P Middleton
 Mr Anson
 Sir T Burns
 Mr Kemp
 Mr Monck
 Mr Burgner
 Mr Gilmore
 Mr Odling-Smee
 Miss Peirson
 Mr Spackman
 Mr Burr
 Mr MacAuslan
 Mr Parsonage
 Mr Saunders
 Miss Seammen
 Mr Corry
 Mr Dodds
 Miss Haworth
 Mr Kalen
 Mr Lock
 Mr Cropper
 Mr Tyrrie

Ch/ relevant to
nurses, of course
 Content with draft?

mpw

26/2

OK on
 → → →

NEW ENTRANTS TO THE LABOUR MARKET IN THE 1990s

Mr Fowler wrote to the Prime Minister about an interdepartmental report on the consequences for the labour market of the sharp decline in the number of young people leaving school in the period up to 1995. The only immediate action is that Mr Fowler says that he intends to publish much of the material in an article in a future issue of the Employment Gazette. You will want to confirm a request already made at official level that DE clear the draft with Treasury (and other Departments) at an early stage. I attach a short draft letter.

Report

2. The main findings of the report are summarised at Annex A. It concludes that the combination of demographic decline and more staying on at school means that fewer young people will be available for employment. The most dramatic decline should

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be among those getting no or poor qualifications - a group already in surplus. Less dramatic but more significant declines are expected in the numbers with higher qualifications - five or more 'O' levels, 'A' levels, and graduates.

General implications for pay, education and training

3. Although the numbers of young people coming into the labour market will decline sharply, by 170,000 from 1987 to 1993, the total size of the labour force will continue to increase. Moreover, the reduction in youth labour will take place over several years. Indeed, there has already been a considerable decline of 70,000 young entrants since 1987. In the private sector, pay, employment and training practices will adjust to cope with the new situation. Employers may modify their recruitment methods and take on older workers; or reduce their minimum entry qualifications - in many cases they ask for 5 'O' levels or 'A' levels as a recruitment sift and not because the qualifications are essential for the job. Some employers may increase pay rates for well qualified young people; this is a natural market response and may stimulate others to seek out alternative sources of labour. The MSC have commissioned some work to find out exactly how the private sector is planning to adjust.

4. The analysis implicitly raises questions about the adequacy of education and training in Britain. The rapid shifts in the skill structure of labour demand and the demographic decline may intensify any concerns. The White Paper, "Higher Education; Meeting the Challenge" announced an interdepartmental review of the balance of graduate provision. The current education reforms should help at secondary level. As for vocational training the Government has taken the line that it is for employers to organize and finance vocational education and training for 16-19 year olds; and has stressed employers' responsibility for the financing of YTS in future. The demographic decline and the shift of financial responsibilities to employers means that we should extract substantial public expenditure savings from YTS over the next few years. We could use some of these savings to improve the quality and additionality of YTS training. It is up to DE whether to bid for that.

*Even from a
public sector*

Implications for public sector employment

(initials)

5. The public sector will also need to adjust its employment practices in similar ways to the private sector and ²division are considering how the Civil Service should react. Other public sector employers will also need to decide how to respond. There may be particular problems for the armed forces, which by their nature require a regular inflow of young people, and the nursing profession which has relied on young workers for many years. The health service is responding by attracting more married women back into employment and by improving employment conditions so as to increase retention rates, but the armed forces do not have such an easy option. PXE are preparing a note for expenditure divisions on this issue.

the do it

Regions

6. The report does not try to look at labour supply and demand by region. To do so would be asking too much of what is already a rather artificial exercise. But both supply and demand already vary a great deal across regions (with for instance higher proportions of school leavers with no or poor qualifications in areas of lower demand). Local imbalances in some areas will be greater than implied by the national picture.

Article

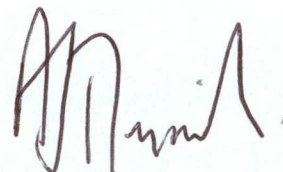
7. Mr Fowler plans a article in the Employment Gazette. We can see advantages in making sure that employers are aware of the scale of adjustment that will be needed. On the other hand, there are dangers in over-emphasising the shortages to be faced by for instance public sector employers (including of nurses, teachers and Civil Servants). We do not want to worsen the negotiating position of the employers. Nor do we want to provide pretexts for higher pay settlements. We have therefore already written to DE at official level making these points and asking them to clear content and timing of the article with us.

8. If you agree with this line, you may want to write to make

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the same points. The Government will need to think especially carefully about publishing the precise projections for the proportions of the youth cohorts required for nursing, teaching and the Civil Service. I attach a draft letter.

9. This submission has been agreed with EA, IAE, MP, ST, HE, DM, MS, Pay, and PMR.

A handwritten signature in dark ink, appearing to read 'AJ Meyrick'.

A J MEYRICK

CONFIDENTIAL

pt type final
for ch.

DRAFT LETTER TO SECRETARY OF STATE FOR EMPLOYMENT

NEW ENTRANTS TO THE LABOUR MARKET IN THE 1990s

Thank you for sending me a copy of your minute of 10 February to the Prime Minister. I found the analysis of the consequences for the labour market of the sharp decline in the number of young people in the period up to 1995 most interesting. It will clearly require some adjustment from employers, and may also have potentially significant policy implications across a range of Departments.

2. However, we must not be too alarmist. The overall size of the labour force will continue to grow whilst the number of young people will fall ^{only} gradually over a number of years. Although there may be special problems for some employers, most should be able to adapt readily, *whether by attracting new manual women back into part employment or in other ways.*
3. *I agree that there is some* ~~Nonetheless,~~ I see *advantage* in ensuring that employers ~~are aware~~ *have an idea* of the scale of adjustment *that is likely to be* required.

But I also think it important that we do not provide ammunition which could be used to weaken the negotiating position of public sector employers or as a pretext for higher pay settlements throughout the economy. I would therefore be most grateful if you could bear these points in mind in considering any article for the Employment Gazette, and could, as I think my

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officials have already suggested to yours, clear its contents and timing in advance with the Treasury and other interested Departments.

4. I am sending copies of this letter to the Prime Minister, to other members of the Cabinet and to Sir Robin Butler.

[NL]

NEW ENTRANTS TO THE LABOUR MARKET IN THE 1990S:
REPORT OF AN INTERDEPARTMENTAL WORKING GROUP

SUMMARY AND CONCLUSIONS

- * There will be a large fall in the number of young people in the labour market during the 1990s because of a combination of demographic decline and a greater proportion staying on in full-time education.
- * The impact of the decline on the overall supply of labour will be limited because it will be offset by fewer retirements and more re-entrants, but there will be a major shift in the age structure of the labour force towards older people and young adults.
- * No firm conclusions can be drawn on highly qualified manpower until the planned inter-departmental Review of the demand for graduates has taken place. Nevertheless, the Review will want to pay particular attention to the position of teachers and the numbers of young people qualified to enter courses in engineering and the sciences.
- * There are likely to be shortages of school leavers available for employment with O and A level qualifications. This should have a major impact on those occupations which traditionally have relied on recruiting people qualified at this level. The most acute example found is nursing, but it is clear there will be others.
- * For those with few or no school leaving qualifications there may be greater competition for young women than young men unless a greater proportion of young men enter the types of work which traditionally have been done by young women. Nevertheless, it will be much easier for young people to secure jobs than was the case during the 1980s, and it is likely that some employers will not be able to fill all their vacancies.

* The response to changes in the supply of young people to each of the various sectors of the youth labour market, including the Youth Training Scheme, will have implications for other sectors and for the adult labour market, as well as the education system. The size of many of these second round effects is uncertain.

* Many employers will need to look outside their traditional sources of recruitment, both in terms of age and in terms of qualifications, if they are to avoid having unfilled vacancies.

* There is a possibility of upward pressure developing on young people's pay, and that of groups of employees where recruiting young people is difficult. Unless employers manage to create a consensus on young people's wage rates, as they have in Germany and Switzerland, this could have spillover effects into the wider labour market.



FROM: CHIEF SECRETARY

DATE: 29 February 1988

PRIME MINISTER

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

I thought you might find it useful to have some preliminary comments on the ideas in Nick Ridley's minute to you of 19 February. I have also seen John Moore's minute of 26 February.

2 Nick proposes to reverse last year's Survey decision to increase the income taper for housing benefit assistance from 65 per cent to 70 per cent in April 1989. This was agreed by John Moore and me in the Survey and then endorsed collectively in E(LF). It saves £50 million compared with the continuation of a 65 per cent taper. It will be announced in October, with the general uprating of benefits and after the Housing Bill has passed through Parliament.

3 I am concerned at Nick's proposal that officials should work up further options to help those just above current housing benefit entitlement which would add to the cost of housing benefit and the number of people receiving it. This has already risen steeply from £1.2 billion paid to 5½ million household in 1979-80 to £5.4 billion paid to 7 million households in 1987-88. One in three households now receive housing benefit.

4 The decisions we took in the Survey and the reform of housing benefit embodied in the Social Security reforms were both aimed at containing this growth; so, while I appreciate the concerns that have led Nick to ask for officials to have a further look at housing benefit, I am concerned that his proposals would represent a marked change in direction, which would have the effect of bringing more people into benefit dependency and the poverty trap.

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5 The reformed housing benefit system means that people with incomes above income support level in receipt of housing benefit will have 100 per cent of any rent increase met in full by benefit. This is more generous than the current scheme, where only 60 per cent of any rent increase is met for those not on supplementary benefit. The income taper will ensure that, if income increases, housing benefit entitlement will be reduced. It is right, and consistent with our policy of targeting help on those in greatest need, that we should require those with higher incomes to pay more towards their housing costs.

6 Under the reformed scheme, the effect of raising the income taper in combination with increases in rents is that, generally, the proportion of net income absorbed by rent for those on low incomes will remain low. This is because the protection provided by the reformed scheme against rent increases far outweighs the effect of a 5 per cent increase in the taper.

7 For example, a pensioner couple with income of £90 and rent of £40 will pay only 17 per cent of their income in rent with a 70 per cent taper. The equivalent figure for a married couple with two children and gross earnings of £140 a week is 20 per cent. These proportions are well below those which many homeowners would expect to pay in mortgage repayments.

8 It is true that single people in work on moderate earnings may pay more. Some may find themselves paying over one third of their net incomes on deregulated rents. But this is not a consequence of the housing benefit system. It reflects the fact that we have decided that the starting point for the operation of the taper - their income support levels - should, rightly be much lower for single people than those of pensioners and families. So single people in work lose entitlement to housing

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benefit at lower levels of income than families.

9 We could tackle it by increasing income support levels for the single unemployed. But this hardly seems attractive and goes in the opposite direction to the reforms which take effect in April. Holding the taper at 65 per cent would make only a marginal difference but would add £50 million to planned public expenditure as I have mentioned. For a rent of £20 per week, the maximum proportion of net incomes that a single person over 25 can pay in rent with a 70 per cent taper is about 30 per cent. For a rent of £40 per week, the maximum is 42 per cent. Reducing the taper to 65 per cent would only reduce this percentage marginally, to 40 per cent.

10 As far as the unemployment trap is concerned, the reward of £20 a week mentioned by Nick is of course twice that which we will be offering to those taking on a training course. And it is worth remembering that even after paying high proportions of their net income in rent, single people in work are still left with more for other expenses than those out of work. Furthermore, as deregulation takes effect, earnings will be rising, so that the gap between in and out of work income will also increase as long as we continue to uprate benefits in line with prices.

11 Nick is concerned that a single person over 25, moving from a regulated to a deregulated letting in London, with a gross income of £177 a week (about 85 per cent of average earnings) or more should have to pay a rent increase from £30 to £60 himself. Such an increase would undoubtedly absorb a major part of that person's net income. However, I do not think we should react to that by extending housing benefit to people with incomes at this level. One of the main planks of our social security policy has been to reduce dependence on the benefit culture, particularly for young single people. It would be contrary to this policy

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to change the housing benefit system so that such people can claim benefit even when they are earning close to the average wage.

12 It is also important to keep in perspective the effects of the tax and benefit system on those on low incomes in work. For most people in work and receiving benefit the £50 a week pay rise mentioned by Nick would lift them entirely off benefit and therefore out of the poverty trap altogether. They would therefore keep much more of their pay rise than the figures Nick mentions. Furthermore, there are only about 45,000 single people in work with marginal tax rates over 70 per cent. Measures to extend housing benefit entitlement would increase this number, not reduce it. For example, adding £10 to the earnings disregard would add a further 20,000.

13 As Nick suggests, the main problem is essentially confined to a relatively few single people living in London where deregulated rents will be high; at most a quarter of the 170,000 single people over 25 living in rented or housing association accommodation. We should, I believe, try to avoid making changes to a national housing benefit scheme on this basis; the deadweight cost would be enormous.

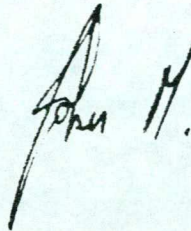
14 I do not believe that our housing policies will be adversely affected by the reformed housing benefit scheme, including the higher taper. On the contrary, we can clearly explain why the reverse is true.

15 John Moore suggests that officials should complete their work before the next Survey, so that he and Nick can consider their positions I agree with this. It is John's expenditure which would increase as a result of Nick's proposals, and John would need to argue the case for higher expenditure with me through the usual Survey procedures if he thought there were a sufficiently

CONFIDENTIAL

compelling case for doing so, taking account of the overall position on the social security programme.

16 I am copying this minute to Nick Ridley, and John Moore.

A handwritten signature in black ink, appearing to read "John H.", written in a cursive style.

JOHN MAJOR



pm

CST
 Sir P Middleton
 Mr Anson
 Sir T Burns
 Mr Kemp
 Mr Monck
 Mr Burgner
 Mr Gilmore
 Mr Odling-Smee
 Miss Peirson
 Mr Spackman
 Mr Burr
 Mr MacAuslan

Treasury Chambers, Parliament Street, SW1P 3AG
 01-270 3000

1 March 1988

The Rt. Hon. Norman Fowler MP
 Secretary of State for Employment
 Department of Employment
 Caxton House
 Tothill Street
 SW1

Mr Parsonage
 Mr Saunders
 Miss Seammen
 Mr Corry
 Mr Dodds
 Miss Haworth
 Mr Kalen
 Mr Lock
 Mr Meyrick
 Mr Cropper
 Mr Tyrie

John Lawson

NEW ENTRANTS TO THE LABOUR MARKET IN THE 1990s

Thank you for sending me a copy of your minute of 10 February to the Prime Minister. I found the analysis of the consequences for the labour market of the sharp decline in the number of young people in the period up to 1995 most interesting. It will clearly require some adjustment from employers, and may also have potentially significant policy implications across a range of Departments.

However, we must not be too alarmist. The overall size of the labour force will continue to grow while the number of young people will fall only gradually over a number of years. Although there may be special problems for some employers, most should be able to adapt readily, whether by attracting more married women back into paid employment or in other ways.

I agree that there is some advantage in ensuring that employers have an idea of the scale of adjustment that is likely to be required. But I also think it important that we do not provide ammunition which could be used to weaken the negotiating position of public sector employers or as a pretext for higher pay settlements throughout the economy. I would therefore be most grateful if you could bear these points in mind in considering any article for the Employment Gazette, and could, as I think my officials have already suggested to yours, clear its contents and timing in advance with the Treasury and other interested Departments.

I am sending copies of this letter to the Prime Minister, to other members of the Cabinet and to Sir Robin Butler.

John Lawson
Nigel Lawson

NIGEL LAWSON



*papers pse
can I have X pr
m*

NOTES OF A MEETING HELD IN THE FINANCIAL SECRETARY'S ROOM ON THURSDAY, 3RD MARCH 1988 AT 11 AM

Those Present: Mr Lewis }
Miss Rhodes } IR
Mr Carr }
Mr Hay }
Mr Cropper }

purp

Employment and Self-employment

X
The Financial Secretary referred to Miss Rhode's submission of 22.2.88 and asked if the Revenue were sure of their ground on this issue. He referred to Mr Taylor's claims to have other businesses elsewhere in the country which have agreed self-employment with the local Inspector in respect of Milk Roundsmen.

Miss Rhodes said there had been a thorough investigation into Mr Taylor's case. She did not know the full details of the other businesses but she felt sure that these were not actually Mr Taylor's businesses but that he merely had connections with them.

The Financial Secretary asked for further information on this point. He asked what the reason was for the difference between the treatment of herdsmen and milk roundsmen.

Miss Rhodes explained that milkroundsmen work under the close control of the estate - they are therefore treated as "employed"; whilst the herdsmen are self-employed on the agreed facts. She pointed out that the "employees" in Mr Taylor's case accepted that they should be taxed under PAYE; and in fact even the agents agreed this was the correct treatment until they found out that the majority of the milkroundsmen had NOT been paying back tax. Miss Rhodes pointed out that the Revenue has offered to compromise on the back tax.

The Financial Secretary felt that this should be brought out in the letter to Lord Young and that both letters should emphasise that most milkroundsmen had failed to pay any tax at all.

In conclusion, the Financial Secretary felt both letters should be more detailed with regard to why the milk roundsmen should be treated as "employed". In the letter to Paddy Ashdown the Financial Secretary felt the wording should be changed on page 2 of the draft ie ("On the basis of his interpretation of the facts"); he felt that the facts should be made clearer. On page 5 of the letter, the Financial Secretary was unhappy with the the statement: "The Revenue assure me that they are handling the Estate's affairs fairly" and asked for it to be changed.

GENERAL POLICY - MR CROPPER'S NOTE OF 23.2.88

Mr Cropper referred to his note of 23.2.88 and the trouble his wife had experienced when dealing with the DHSS/IR regarding her employment status.

He felt that the present IR/DHSS joint system for determining status was obviously not working correctly.

The Financial Secretary said he was surprised that Music Teachers are treated as anything other than self-employed.

Mr Lewis pointed out that individual cases vary and that it could be quite normal for a Music teacher to have several employers.

Mr Carr explained that the normal practice would be that if either the DHSS or IR made a ruling on status; it would be binding on both departments. The arrangements encouraged people to ask if they were uncertain of their status. He pointed out however that it was possible to be "employed" whilst still carrying on some other self-employed work; and that often tax allowances could be used to cancel out the employed income so that tax was not deducted under PAYE.

The Financial Secretary asked what the criteria for self-employment was and how it was arrived at.

Mr Carr said the main questions were "who was taking the risk?" He referred to the new IR56 which sets out the criteria for self employment such as: Were they in business on their own account? Do they have the final say in running the business?; Do they meet the losses?; Do they supply the major equipment? Can they pay for and hire extra staff? Do they have to correct unsatisfactory work at their own expense.

Mr Cropper felt it was important to have a clear line on self employment status before tackling Lord Young and MISC 133. He asked how the present criteria had arisen.

Miss Rhodes explained there was no tax legislation on this point; only employment law which gives a general law definition of self-employment. The IR criteria had built up over the years from case laws; but there was no statute which laid it out in black and white.

Mr Carr pointed out that the question of employed or self-employed is normally very clear in the vast majority of cases and in practice rarely causes problems to Inspectors.

Mr Lewis felt that the problem usually arose when without consulting the Revenue people assumed they were self-employed (because of the more favourable tax/NIC regime) and that was not borne out by the facts when they were examined at a later stage.

The Financial Secretary asked what happened at the Debate in the House of Commons on 15.2.88.

Mr Carr said the debate had covered a wide range of topics. There had been arguments both for and against a legal definition of Self-Employment. The Financial Secretary asked whether a statutory

definition of employment or self employment had been looked at before. Mr Lewis pointed out that the Chancellor had written to the Prime Minister in 1984 on this subject and had felt at that time that a statutory definition would be more of a hindrance than a help.

The Financial Secretary pointed out that the Chancellor in his minute of 25.2.88 had agreed with Mr Cropper's conclusions ie calling for a clear definition of self employment. He also reminded the meeting that Lord Young was bound to discuss the present situation at MISC 133 in the near future.

In conclusion, the Financial Secretary asked for the following:

- a) A submission on the arguments for and against a statutory definition of Self Employment.
- b) A review of the liaison between the Revenue and the Department of Health and Security.
- c) Further investigation into Mrs Cropper's case; with a draft letter for Mr Portillo asking if he was satisfied with the present system. (Mrs Cropper need not be mentioned by name).
- d) Views and ideas on how the present system could be improved.
- e) Revenue should suggest a meeting with Judith Chaplin of IOD to discuss the system. IR should attempt to convince her that the present system is correct.
- f) A paper should be prepared ready for the MISC 133 meeting in April to answer Lord Young's points; once feed back is received from the previous 5 items.

With regard to the Lord Young letter; the Financial Secretary felt the Revenue should take a tough line on his allegation of

Revenue harrassment.

Susan Feest

SUSAN FEEST

3.3.88

cc PS/Chancellor
Mr Culpin
Mr MacAuslan
Mrs Hay
Mr Cropper
Mr Tyne
Mr Lewis - IR
Miss Rhodes - IR
Mr Carr - IR
PS/IR



Papers psc
Can BF for sometime
poor. Budget)

2 MARSHAM STREET
 LONDON SW1P 3EB
 01-212 3434

My ref:

Your ref:

BF 913
mp
 4 March 1988

P Gray Esq
 Private Secretary to
 The Prime Minister
 10 Downing Street
 LONDON
 SW1A 2AA

CH/EXCHEQUER	
REC.	04 MAR 1988 ✓ 4/3
ACTION	CST
COPIES TO	

Dear Paul,

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

Thank you for your letter of 22 February which my Secretary of State has seen, together with the Secretary of State for Health and Social Services minute of 26 February and the Chief Secretary's minute of 29 February.

We now need to make arrangements for the necessary inter-departmental discussions to take place, after Budget day. My Secretary of State would like to propose a small group of officials chaired by Cabinet Office, including representatives of Treasury, DHSS, DOE, the Scottish and Welsh Offices, DTI and Employment. Their remit would be to reach conclusions on the options for alleviating the unemployment/poverty trap in advance of the next PES round.

Perhaps you could let me know if that would be acceptable. I am copying this letter to Alex Allan (Treasury) and Geoffrey Podger (DHSS); and this letter together with copies of the earlier correspondence on this subject to (Scottish Office), (Welsh Office) (DTI) (Employment) and to Trevor Woolley in Sir Robin Butler's office.

Yours sincerely,

Deborah

DEBORAH LAMB
 Private Secretary

FROM: J P MCINTYRE
DATE: 8 MARCH 1988

CHIEF SECRETARY

cc Chancellor
Sir P Middleton
Mr Anson
Mr Phillips
Mr Byatt
Mr Culpin
Miss Peirson
Mr Turnbull
Mr Hawtin
Mr Burgner
Miss Sinclair
Mr Gibson
Mr Tyrie
Mr Call

Handwritten notes:
This can be to
question of joint tax
matter of Joint Tax
Commission
PS in [unclear] [unclear] [unclear]
@ XX: "Reduce income tax and not help much with this problem..."
tax rates would...
trap unemployment...
trap unemployment...
Mr.

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

Mr Ridley's Private Secretary wrote to No 10 on 4 March to propose the setting up of a new inter-departmental group to take forward the work proposed by Mr Ridley in his minute of 19 February. (The letter was not received in the Treasury until today.)

2. The new group would be chaired by the Cabinet Office and include representatives not only of the Treasury, DHSS, and DOE, but also the Scots and the Welsh, DTI, and Employment. Their remit would be to reach conclusions "on the options for alleviating the unemployment/poverty trap in advance of the next PES round".

3. Both the composition of this inter-departmental group and its remit are unacceptable. DOE are attempting to mobilise additional support around Whitehall for additional public expenditure on housing benefit, which would of course fall on the DHSS programme (and which the other Departments would not of course be offering to offset).

4. In order to stimulate the interest of other Departments, DOE are proposing a remit for the new group which would go much wider than housing policy and housing benefit. The group would inevitably become involved in considering matters of tax policy as

well as social security policy. Lord Young needs little encouragement to get involved in these issues.

5. I understand that DHSS are likely to write today opposing the setting up of the new group and the proposed terms of reference. Their concern is that the group would become a new channel for pressure to make policy changes, not just on housing benefit, with expenditure consequences for their programme which we would argue should be offset.

6. It is not yet clear what line the PM will be advised to take. Before the election, she took some interest in the unemployment trap, and Lord Young sent her a report on the subject. However, the election intervened, and the work has not been taken further.

7. We know that Mr Ridley saw the PM privately on the housing policy/benefit issue last month, before minuting with his proposals for review (19 February). The No 10 response (Mr Gray's letter of 22 February) reported the PM's agreement that "officials should be invited, following the Budget, to address the problems outlined" in Mr Ridley's minute. Mr Ridley had referred in his minute to the "damaging implications for people with incomes just above benefit levels of the continuation of our tax, national insurance, community charge rebate, and housing benefit policies". But most of his minute was of course taken up with the specific problems, as he sees them, arising from the interaction of the housing benefit and rents policies. It would therefore be reasonable to argue that the No 10 letter of 22 February allows a narrower interpretation of the remit than Mr Ridley has now given it. Reference can also be made to the social security reviews, which went over the trap problem in some detail.

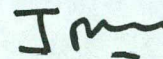
8. In view of the threat to Treasury interests posed by Mr Ridley's proposals, you may therefore wish to comment on the lines of the attached draft, arguing that:-

- (i) the existing (DHSS-chaired) group, set up following Mr Ridley's initiative on the transfer of responsibility for

housing benefit last Autumn, should deal with this further work;

(ii) the remit of the group should be confined to examining the impact of the 70% housing benefit taper and to producing costed options for changes in housing benefit which would help those above benefit level. These were the specific proposals which Mr Ridley made in his minute of 19 February.

9. The draft assumes a Private Secretary response but could be easily adapted if you wanted to write yourself. We have asked your office to contact No 10 and Sir Robin Butler's office, asking them to stay their hand until you have had a chance to comment. A quick response would, however, still be desirable.



J P MCINTYRE

DRAFT LETTER TO:-

Paul Gray Esq
PS/Prime Minister
10 Downing Street
LONDON
SW1A 2AA

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

The Chief Secretary has seen a copy of Deborah Lamb's letter of 4 March to you, proposing the establishment of a new inter-departmental group to take forward the work which the Prime Minister has agreed should be done, following Mr Ridley's minute to her of 19 February.

2. The Chief Secretary believes it important that the work by officials should focus on the particular issues identified in Mr Ridley's minute, which arise from the relationship between housing and housing benefit policies. It would, in the Chief Secretary's view be inappropriate for officials to aim to consider the whole range of unemployment/poverty trap questions, which were gone over in some detail in the social security reviews. This would not, in any case, be necessary to address the specific questions which Mr Ridley raised in his 19 February minute. It will also be important to focus on these specific issues if, as Mr Ridley has asked, the work is to be done urgently and in advance of the 1988 Survey.

3. The Chief Secretary would therefore prefer the existing group of officials, under DHSS chairmanship, to take this work forward.

This group was established last Autumn, following Mr Ridley's proposal that the possibility of transferring responsibility for housing benefit to DOE should be reviewed. ^eThis group has already done a good deal of work, not only on the responsibility question but on the combined effects of the new housing benefit regime and the Government's new rents policy. It would make sense for ^ethis group to build on the work which they have already done in addressing the questions which Mr Ridley has now raised.

4. The Chief Secretary would suggest the following terms of reference for the group:-

"To assess the likely impact of the new housing benefit regime and the Government's rents policy on those in low paid employment, in particular the effect of the decision to raise the income taper for withdrawal of housing benefit from 65% to 70% in April 1990. Also to produce costed options for changes in housing benefit."

5. As the Chief Secretary said in his minute of 29 February, it would then be for Mr Moore and Mr Ridley to consider their positions before the Survey and for Mr Moore to make any proposals arising from the group's work which would affect his programme, if he thought there were a compelling case for doing so. In this way, the work of the official group could be channelled into the Survey process in the usual way, without cutting across the responsibility of each Department for its own expenditure programme.

6. I am sending a copy of this letter to the recipients of Deborah Lamb's letter of 4 March.

JILL RUTTER



F. TF.

Mr Young

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

P Gray Esq
Private Secretary to
The Prime Minister
10 Downing Street
LONDON
SW1A 2AA

4 March 1988

Dear Paul,

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

X Thank you for your letter of 22 February which my Secretary of State has seen, together with the Secretary of State for Health and Social Services minute of 26 February and the Chief Secretary's minute of 29 February.

We now need to make arrangements for the necessary inter-departmental discussions to take place, after Budget day. My Secretary of State would like to propose a small group of officials chaired by Cabinet Office, including representatives of Treasury, DHSS, DOE, the Scottish and Welsh Offices, DTI and Employment. Their remit would be to reach conclusions on the options for alleviating the unemployment/poverty trap in advance of the next PES round.

X Perhaps you could let me know if that would be acceptable. I am copying this letter to Alex Allan (Treasury) and Geoffrey Podger (DHSS); and this letter together with copies of the earlier correspondence on this subject to (Scottish Office), (Welsh Office) (DTI) (Employment) and to Trevor Woolley in Sir Robin Butler's office.

Yours sincerely,

DeborahDEBORAH LAMB
Private Secretary



CH/	ER
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Caxton House Tothill Street London SW1H 9NF

5803

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Facsimile 01-273 5465 Telex 915564

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 HM Treasury
 Parliament Street
 London
 SW1A 3AG

BF 2213

8 March 1988

Dear Nigel.

YTS IN THE PUBLIC SECTOR

As you know, when YTS was discussed at Cabinet on 26 November, concern was expressed at the public sector's poor record in this area, and one of the recommendations was that the Civil Service should be urged to do more. As the Minister responsible for YTS, and as Minister with day-to-day responsibility for the Civil Service, we both have a vital interest in promoting YTS more widely in the Civil Service. We are therefore writing jointly to urge colleagues to pursue vigorously the wider introduction of YTS in Government departments.

There are currently around 2,000 YTS places available to trainees in central government, mostly in schemes run by the Ministry of Defence and in the industrial areas of the Civil Service. But there are fewer than 500 places available on the non-industrial side, the vast majority of which are offered by just two departments - the Ministry of Defence and the Department of Employment Group. These figures are disappointingly low and it is in the non-industrial areas of the Civil Service that we are looking to make greater progress.

We know of course of the difficulties that can be faced by Government departments in setting up schemes, but experience shows that these can be tackled successfully. The Department of Employment Group already has 100 trainees in post and plans to do more; and the Northern Ireland Civil Service has been running a 100 place scheme for some time. The DE Group has



experienced some industrial action, and we cannot discount the possibility that colleagues too may well face industrial action in their own departments. But it is important to keep this aspect in perspective. In the DE Group the token strike on 27 November was supported by only a third of CPSA members and a fifth of all staff in the grades concerned. And it is to be hoped that the more quickly other departments bring forward schemes, the quicker the CPSA will see the futility of trying to use the strike weapon to defeat the Government on this issue.

In the past, the apparent obstacles to the wider introduction of YTS in Government departments may have obscured its positive aspects. We believe that what is needed now is to concentrate management effort and resources in Government departments on YTS projects that can bring several benefits. They tap a source of potential employees whom our normal recruitment efforts disregard. They also provide an important means by which we can reach out into the inner city communities which surround our offices and offer a quality programme of training and planned work experience to youngsters who may not have the minimum entry requirements for normal clerical recruitment.

Employers in the private sector, including those under pressure and reducing staff numbers, have been prepared to take the plunge and are now reaping the benefits. We believe firmly that the Civil Service too could and should participate more widely in YTS to its own advantage and that of the young trainees involved.

Richard Luce wrote to colleagues six months ago urging all Ministers to help in the wider introduction of YTS in the Civil Service and pointing out that some of the apparent obstacles (e.g. the supposed 'veto' of the Trade Unions in MSC's approval process) had been overcome. In the light of Cabinet discussion, it would now seem right for colleagues to review the progress made since August - we know that one or two Departments are about to come forward with Schemes - and to make sure that Ministers' commitment to this initiative is fully understood at all levels.

The Department of Employment Group has been very happy to share with other Departments its experience in running its own scheme, and MSC officials have offered extensive help with the administrative procedures. Several Departments have, we know, taken up those offers and we hope that more will do so.

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It would be very helpful therefore if colleagues would write to us to let us know how YTS is progressing in their Departments.

This letter is being sent to all Ministerial Heads of Department, to the Prime Minister and to Sir Robin Butler.

A handwritten signature in blue ink, appearing to read "Norman Fowler".

NORMAN FOWLER

A handwritten signature in blue ink, appearing to read "Richard Luce".

RICHARD LUCE

CONFIDENTIAL



mp

cc:
 Chancellor
 Sir Peter Middleton
 Mr Anson
 Mr Phillips
 Mr Byatt
 Mr Culpin
 Miss Peirson
 Mr Turnbull
 Mr Hawtin
 Mr Burgner
 Miss Sinclair
 Mr McIntyre
 Mr Gibson
 Mr Tyrie
 Mr Call

Treasury Chambers, Parliament Street, SW1P 3J

Paul Gray Esq
 Private Secretary
 10 Downing Street
 London
 SW1A 2AA

8 March 1988

Dear Paul,

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

The Chief Secretary has seen a copy of Deborah Lamb's letter of 4 March to you, proposing the establishment of a new inter-departmental group to take forward the work which the Prime Minister has agreed should be done, following Mr Ridley's minute to her of 19 February.

The Chief Secretary believes it important that the work by officials should focus on the particular issues identified in Mr Ridley's minute, which arise from the relationship between housing and housing benefit policies. It would, in the Chief Secretary's view be inappropriate for officials to aim to consider the whole range of unemployment poverty trap questions, which were gone over in some detail in the social security review. This would not, in any case, be necessary to address the specific questions which Mr Ridley raised in his 19 February minute. It will also be important to focus on these specific issues if, as Mr Ridley has asked, the work is to be done urgently and in advance of the 1988 Survey.

The Chief Secretary would therefore prefer the existing group of officials, under DHSS chairmanship, to take this work forward. This group was established last Autumn, following Mr Ridley's proposal that the possibility of transferring responsibility for housing benefit to DOE should be reviewed. The group has already done a good deal of work, not only on the responsibility question but on the combined effects of

CONFIDENTIAL

the new housing benefit regime and the Government's new rents policy. It would make sense for the group to build on the work which they have already done in addressing the questions which Mr Ridley has now raised.

The Chief Secretary would suggest the following terms of reference for the group:-

"To assess the likely impact of the new housing benefit regime and the Government's rents policy on those in low paid employment, in particular the effect of the decision to raise the income taper for withdrawal of housing benefit from 65 per cent to 70 per cent in April 1990. Also to produce costed options for changes in housing benefit."

As the Chief Secretary said in his minute of 29 February, it would then be for Mr Moore and Mr Ridley to consider their positions before the Survey and for Mr Moore to make any proposals arising from the group's work which would affect his programme, if he thought there were a compelling case for doing so. In this way, the work of the official group could be channelled into the Survey process in the usual way, without cutting across the responsibility of each Department for its own expenditure programme.

I am copying this letter to Deborah Lamb (Environment), Geoffrey Podger (DHSS), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Alison Brimelow (DTI), Nick Wilson (Employment) and Trevor Woolley in Sir Robin Butler's office.

Yours,

Jill

JILL RUTTER
Private Secretary

CONFIDENTIAL

papers pse
pupFROM: P J CROPPER
DATE: 8 March 1988

FINANCIAL SECRETARY

cc Chancellor
Chief Secretary
Paymaster General
Economic Secretary
Mr Culpin
Mr MacAuslan
Mr Tyrie
Mr CallMiss A Rhodes IR
Mr Carr IR
PS/IREMPLOYMENT AND SELF-EMPLOYMENT

As I said briefly at your meeting last week, it turns out that there are certain trades and professions where the Inland Revenue/DHSS concordat does not operate - and peripatetic music teachers are one of them. In these cases the DHSS decides how it is going to categorise people and disregards the Inland Revenue. It is quite possible for a part-time music teacher to find him(her)-self having the cost of Class 1 (employed) NICs deducted from the pay-check, while being left to deal with the Inland Revenue on a self-employed basis. And probably buying a self-employed stamp concurrently on account of private pupils. Very messy.

2. It may be that this is something we should look into with Michael Portillo.

3. On reflection I think it best not to use my wife's case as the basis of an investigation. I do not want her particular headmasters to gain the notoriety of having inspired a Ministerial enquiry. In any case, I think we now have the clue as to what has been causing the trouble - quite apart from DHSS failure to reply to letters, which is another matter.



P J CROPPER

CONFIDENTIAL

From: S D H SARGENT

Date: 9 March 1988

CHIEF SECRETARY

cc Chancellor
Mr Anson
Mr Phillips
Mr Byatt
Mr Culpin
Miss Peirson
Mr Turnbull
Mr Hawtin
Mr Burgner
Mr McIntyre
Miss Sinclair
Mr Gibson
Mr Tyrie
Mr Call

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

Sir Peter Middleton has seen Mr McIntyre's minute of 8 March. He agrees that the Ridley proposals are unacceptable. He has commented that if we try to get rid of the poverty trap by generalising or increasing benefits the costs will be enormous.

S D H SARGENT
Private Secretary



*I forgot -
has CST's
response
issued?*

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

P Gray Esq
Private Secretary
10 Downing street
LONDON
SW1A 2AA

CH/EXCHEQUER ✓	
REC.	09 MAR 1988 9/13
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9 March 1988

Dear Paul

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

I have seen Deborah Lamb's letter to you of 4 March. The remit she suggests for the interdepartmental discussions goes way beyond the issues that were discussed at the relevant E(LF) meeting or raised in the recent Ministerial exchanges; as my Secretary of State made clear in his minute of 26 February, he regards these discussions as limited to an exploration of the options within housing benefit for avoiding what the Secretary of State for the Environment sees as the undesirable consequences of a steeper rent taper in 1989/90.

So far as mechanics are concerned, there is already an interdepartmental working group set up at Mr Ridley's request to consider the interaction between housing benefit and housing policy and the effects of the PES decisions. My Secretary of State considers this would provide the natural forum for discussion of the issues raised in Mr Ridley's letter to the Prime Minister. The membership includes DHSS, DoE, Treasury, Cabinet Office, Scotland and Wales; if DTI or Employment see a sufficient departmental interest in this issue of rent tapers, I am sure there would be no difficulty in their attending.

I am copying this letter to Alex Allan (Treasury), Deborah Lamb (Environment), Trevor Woolley (Cabinet Office) and to private secretaries at the Scottish Office, Welsh Office, DTI and Employment.

Yours sincerely

Rod Clark

ROD CLARK
Private Secretary

CONFIDENTIAL



M.P.W.

FROM: MISS M P WALLACE

DATE: 9 March 1988

PS/CHIEF SECRETARY

cc Sir P Middleton
Mr Anson
Mr Phillips
Mr Byatt
Mr Culpin
Miss Peirson
Mr Turnbull
Mr Hawtin
Mr Burgner
Miss Sinclair
Mr Gibson
Mr McIntyre
Mr Tyrie
Mr Call

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

The Chancellor has seen Mr McIntyre's minute of 8 March. He has commented that there can be absolutely no question of putting tax matters into commission. He has added that, in any event, Mr Ridley's original minute says (paragraph 5): "Reducing income tax would not help much with this problem [...] reducing tax rates would leave the unemployment trap untouched."

M.P.W.

MOIRA WALLACE

COVERING PERSONAL AND CONFIDENTIAL



and

Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-~~273~~ 5803

Switchboard 01-213 3000

Paul Gray Esq
10 Downing Street
LONDON SW1A 2AA

14 March 1988

Dear Paul,

LABOUR MARKET STATISTICS

... I enclose the draft labour market statistics press release for February which will be issued on Thursday. The brief is of course personal and confidential until 11.30 on 17 March and confidential thereafter.

I am copying this to Alex Allan (Treasury), Sir Peter Middleton (Treasury), Mr Hibbert (CSO), Mr Footman (Bank of England), Trevor Woolley (Cabinet Office), Alison Brimelow (DTI), Sir Brian Hayes (DTI), David Crawley (Scottish Office), Sir William Fraser (Scottish Office), Jon Shortridge (Welsh Office), David Watkins (Northern Ireland Office) David Fell (Department of Economic Development, Northern Ireland Office) and Peter Stredder (No 10 Policy Unit).

yours sincerely

Peter Baldwin

for ANGELA WILKINS
Private Secretary

COVERING PERSONAL AND CONFIDENTIAL

2/14

COVERING PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON 17.3.88 THEREAFTER CONFIDENTIAL
LABOUR MARKET STATISTICS: NOTES FOR PRIME MINISTER

- A. 1. SUMMARY
- 2. KEY FACTS BRIEF

B. DRAFT PRESS NOTICE

C. DETAILED ANALYSIS AND BACKGROUND INFORMATION

- 1. GRAPHS: 1a UNEMPLOYMENT
 - 1b UNEMPLOYMENT RATES BY REGION
- 2. UNEMPLOYMENT: ADDITIONAL DATA BY REGION
- 3. LONG TERM UNEMPLOYMENT AND UNEMPLOYMENT BY AGE
- 4. EMPLOYMENT MEASURES
- 5. UNEMPLOYMENT: INTERNATIONAL COMPARISONS

D. ADDITIONAL INFORMATION

- 1. Unemployment: comparisons with 1930s
- 2. Unemployment: coverage of the count: comparison with Labour Force Survey estimates.
- 3. Unemployment: changes in coverage of the count.
- 4. Unemployment: coverage of the count: summary of possible additions and exclusions.
- 5. Labour Market: job changes and flows.
- 6. Demographic and labour force background.
- 7. Employment: methodology.
- 8. Employment: double jobbing and special measures.
- 9. Employment: international comparisons.
- 10. Employment: additional data.
- 11. Earnings.

Recent Labour Market Statistics

Unemployment in February
seasonally adjusted (UK)

Down 33,400 in February

Now 2.531 million, 9.1%
Down 19 months running

Lowest for 6 years (since February
1982)

Fall in last 12 months 535,000
NOT a record.

Largest sustained fall on record.
Down 679,000 since July 1986

Fall of 49,000 per month
over last six months

Total (including school leavers)
Now 2.665 million (9.6%) (UK)

Down 57,000 since January
Fall in last 12 months
560,000 (less than last month's
record)

Regional unemployment

Fall in all regions of UK in
month and over last year: rates
fallen most in West Midlands,
North West, North and Wales

Youth unemployment (UK)
School leavers in February 57,000
23,000 lower than a year ago,
and lowest February figure
since 1980.

Halved in last 5 years
(Feb 1983 124,000)

Under 25s also lowest for more
than 5 years and down about
a quarter compared with
January 1983.

International comparisons

UK rate fallen faster in past year
than any other major industrialised
country.

Unemployment now higher in France
(10.5%), Belgium (10.5%)
Netherlands (9.5%), Spain (19.0%)
and Ireland (18.9%)

Employed labour force (GB)

Increase of 75,000 in Q3 in 1987

Increase of 461,000 in year to September of which:

	Men	Women	Total
Full-time	89	131	219
Part-time	73	169	242
Total	162	300	461

Increase every quarter since March 1983 (4½ years); by
1.51 million

Manufacturing employment (GB)

Unchanged in January
Fell 1,000 per month on average in last 6 months
Appears to be levelling out.

Vacancies (UK)

Unfilled vacancies at Jobcentres 247,900 in February
20% higher than a year ago.

Over 700,000 vacancies in the economy overall.
Only about ⅓ vacancies reported to jobcentres.

Average Earnings (GB)

Underlying increase in average earnings in year to
January 8½%. Unchanged on December.

Labour Force Survey

Again shows claimant count above survey estimate
of unemployment using international definitions
(ILO/OECD)
(2.95m in Spring 1987 compared to 2.88 million GB).

Lesser fall in survey estimate compared with claimant
count between 1986 and 1987 reflects response among
claimants to extra job opportunities, with more
frequent job seeking among those yet to find work
(210 thousand fall in count compared to 80 thousand
(ILO/OECD)

Long term unemployment (UK)

1.101 million in January
Fell by 274,000 in year since January 1987,
largest 12 months fall on record

Longer-term unemployment (over 6 months)
1.547 million in January, record fall of
365,000 over past 12 months.

Recent Labour Market statistics - additional points

Effect of measures

Part-time employment

- participants in employment measures hardly changed overall in last year, when unemployment fallen rapidly.
- YTS has increased in size but has little impact on seasonally adjusted adult count.
- Effect of Restart in helping long term unemployed back into work (through other schemes and job opportunities) cannot be estimated separately from effect of rapid improvements in labour market. Programme more successful when more jobs available.
- Availability testing will discourage some people not interested in getting work; cannot estimate how many.
- Those on schemes such as CP are employed just like other workers. Those on EAS are self-employed.

- Rise in part-time employment (53% of increase in employment in year to September) sign of increased flexibility in the labour market.
- According to LFS, vast majority of those working part-time do not want full-time jobs.
- A part-time job can be up to 30 hours per week, so cannot describe as half a full-time job.

International comparisons of employment

- increase since 1983 greater than rest of EC combined.
- UK proportion of population of working age in employment (66%) much greater than EC average (58%)

Fiddling the figures

Only 6 changes affecting count since 1979 3 statistical and 3 administrative including only 2 changes to compilation.

Seasonally adjusted unemployment series is consistent and allows comparison of trend over time: nothing to hide

Flows into and out of unemployment

- Some 400,000 per month enter and leave the count. Over a quarter of those becoming unemployed leave within the first month, over half leave within 3 months.
- job starts: 7½ million per year (includes employed and unemployed) equivalent to about 30,000 every working day.

International definition of unemployment

Latest OECD standardised rates, show UK unemployment at 9.0% (December)

Figures of 5 million from LFS sometimes quoted include all who say they would like work, even if not available for or seeking work (eg early retired, sick, looking after home.)

International comparisons for under 25s

Under 25s unemployment rate in January 14% Latest EC comparison for 1986 showed UK 18% compared with EC average 23% (Italy 34%, France 23%, Belgium 20% Ireland 27% Greece 24%, Portugal 29%, Spain 48%)

LABOUR MARKET STATISTICS

MARCH 17, 1988

SUMMARY STATISTICS

				<u>Thousands</u>		
				Level	Change on previous period	Change on previous year
<u>Unemployment (UK)</u>						
Total (not seasonally adjusted)	February	11		2,665	- 57	- 560
Total (excluding school leavers)	February	11		2,531	- 33	- 535
<u>Employed Labour Force</u>	September;	Q3	1987	24,505	+ 75	+ 461
<u>Employees in employment</u>						
Services	September	Q3	1987	14,547	+ 80	+ 352
Manufacturing	December	Q4	1987	5,035	+ 6	- 55
Manufacturing employment	January	1988		5,035	0	- 30
<u>Vacancies</u> (UK at jobcentres)	February	5		248	- 2	+ 41

Percentage change on previous year
(underlying increase)

Index of Average Earnings

Whole Economy	January	8½
Services	January	8½
Manufacturing	January	8½

Notes

1. All figures seasonally adjusted GB except where otherwise stated.
2. The employed labour force comprise employees in employment; the self-employed and HM Forces.

The latest figures available on developments in the labour market are summarised below.

Summary

Unemployment (UK seasonally adjusted excluding school leavers) fell by 33,400 in the month to February. Male unemployment decreased by 28,000 and female unemployment decreased, by 5,400. Over the past six months there has been a fall of 49,000 on average compared with a fall of 40,200 per month over the previous six months to August 1987.

The unadjusted unemployment total, decreased in February by 56,685 to 2,665,469. This includes 57,414 school leavers aged under 18. In February, total unemployment was 560,340 lower than a year ago.

The number of employees employed in manufacturing industry was unchanged between December 1987 and January 1988.

Whole economy estimates in Great Britain remain broadly the same as published last month except for slight revisions to reflect some late data now available. The employed labour force is estimated to have increased by 75,000 in the third quarter contributing to overall increases of 461,000 in the year to September 1987 and of 1,508,000 since March 1983.

The stock of vacancies (UK seasonally adjusted excluding Community Programme) decreased by 1,600 in February to 247,900. Over the past six months there has been an increase of 1,800 per month on average.

The underlying increase in average earnings in the year to January was 8½ per cent, the same level as in the year to December.

Additional and more detailed information on unemployment, employment, vacancies, average earnings, unit wage costs, hours of work, productivity and industrial disputes is to be found in subsequent sections of the press notice.

LABOUR MARKET STATISTICS

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UNEMPLOYMENT

The seasonally adjusted level of unemployment in the UK (excluding school leavers) decreased by 33,400 to 2.531 million in February, 9.1 per cent of the working population*.

Over the past six months on average unemployment has fallen by 49,000 per month.

The recorded total of unemployed claimants, including school leavers, decreased by 56,685 between January and February to 2,665,469 giving an unemployment rate of 9.6 per cent of the working population. Unemployment is 560,340 less than a year ago. The total included 57,414 school leavers, 22,522 lower than a year ago.

Recent figures are shown in tables 1, 2 and 3.

TABLE 1: UNEMPLOYMENT - UNITED KINGDOM

THOUSAND

TABLE 1: UNEMPLOYMENT - SEASONALLY ADJUSTED excl. school leavers - UNITED KINGDOM

		Male	Female	Number	Change since previous month	Unemployment rate: Percentage of working population*	Average change over 6 months ended	Average change over 3 months ended
1987	Feb	2122.5	944.0	3066.5	-45.7	11.0	-23.3	-28.1
	Mar	2105.5	931.8	3037.3	-29.2	10.9	-24.7	-27.8
	Apr	2095.3	926.1	3021.4	-15.9	10.8	-23.7	-30.3
	May	2051.9	899.0	2950.9	-70.5	10.6	-33.3	-38.5
	Jun	2033.2	889.0	2922.2	-28.7	10.5	-33.1	-38.4
	Jul	2002.3	870.8	2873.1	-49.1	10.3	-39.9	-49.4
	Aug	1970.4	855.1	2825.5	-47.6	10.1	-40.2	-41.8
	Sep	1939.3	832.9	2772.2	-53.3	9.9	-44.2	-50.0
	Oct	1899.5	814.1	2713.6	-58.6	9.7	-51.3	-53.2
	Nov	1854.7	796.1	2650.8	-62.8	9.5	-50.0	-58.2
	Dec	1825.3	788.6	2613.9	-36.9	9.4	-51.4	-52.8
1988	Jan(r)	1783.5	781.2	2564.7	-49.2	9.2	-51.4	-49.6
	Feb(p)	1755.5	775.8	2531.3	-33.4	9.1 **	-49.0	-39.8

** The separate rate for males was 10.7 per cent, and for females 6.7 per cent.

* See note A5

(p) Provisional and subject to revision (see note A6)

(r) Revised

TABLE 2: UNEMPLOYMENT - UNADJUSTED incl. school leavers - UNITED KINGDOM

		Male	Female	Number	Unemployment rate:percentage of working population*	School leavers	
						Claimants	Non Claimants**
1987	Feb	2,233,932	991,877	3,225,809	11.6	79,936	.
	Mar	2,181,037	962,333	3,143,370	11.3	72,281	.
	Apr	2,158,222	948,906	3,107,128	11.1	66,572	.
	May	2,080,369	906,084	2,986,453	10.7	74,930	.
	Jun	2,022,964	882,361	2,905,325	10.4	69,397	103,552
	Jul	2,008,482	897,971	2,906,453	10.4	63,922	128,903
	Aug	1,970,318	895,484	2,865,802	10.3	56,135	115,669
	Sep	1,973,776	896,419	2,870,195	10.3	92,406	.
	Oct	1,903,620	847,764	2,751,384	9.9	83,226	.
	Nov	1,865,842	819,741	2,685,583	9.6	69,408	.
	Dec	1,878,715	817,095	2,695,810	9.7	63,726	.
1988	Jan	1,892,698	829,456	2,722,154	9.8	62,797	.
	Feb	1,852,129	813,340	2,665,469	9.6+	57,414	.

+ The separate rate for males was 11.3 per cent, and for females 7.1 per cent.

** Not included in totals, see note A4

*See note A5.

TABLE 3: UNEMPLOYMENT - REGIONS February 11 1988

THOUSAND

	SEASONALLY ADJUSTED (P) (EXCLUDING SCHOOL LEAVERS)				UNADJUSTED (INCLUDING SCHOOL LEAVERS)			
	Total	Change since previous month	Unemployment rate percent- age of working population*	Change since previous month	Total	Change since previous month	Unemployment rate percent- age of working population*	School leavers population*
South East (Greater London)	563.0 (317.6)	-9.9 (-1.0)	6.1 (7.4)	-0.1 (-0.0)	586.9 (324.3)	-10.7 (-1.0)	6.3 (7.6)	6.9 (4.1)
East Anglia	58.2	-1.4	5.8	-0.1	63.5	-1.1	6.3	.9
South West	152.0	-2.2	7.4	-0.1	163.3	-4.3	7.9	2.0
West Midlands	258.1	-4.4	9.9	-0.2	269.4	-6.6	10.4	6.2
East Midlands	158.4	-1.1	8.2	-0.1	166.9	-3.0	8.7	2.9
Yorks and Humberside	245.7	-3.1	10.5	-0.1	260.6	-5.5	11.1	6.8
North West	351.4	-4.7	11.8	-0.2	367.3	-8.3	12.4	8.2
North	187.3	-1.2	13.1	-0.1	196.6	-4.3	13.8	4.5
Wales	136.7	-1.3	11.6	-0.1	145.5	-3.0	12.4	3.1
Scotland	303.5	-2.7	12.4	-0.1	326.0	-7.7	13.3	14.5
GREAT BRITAIN	2,414.2	-32.1	8.9	-0.1	2,545.9	-54.5	9.4	55.9
Northern Ireland	117.1	-1.3	17.2	-0.2	119.6	-2.2	17.6	1.5
UNITED KINGDOM	2,531.3	-33.4	9.1	-0.1	2,665.5	-56.7	9.6	57.4

* See note A5

(P) Provisional see note A6

TABLE 4: UNEMPLOYMENT FLOWS - STANDARDISED, UNADJUSTED - UNITED KINGDOM THOUSANDS

		INFLOW			OUTFLOW				
Month	ending	Total including school leavers	School leavers	Total excluding school leavers	Change since previous year	Total including school leavers	School leavers	Total excluding school leavers	Change since previous year
1987	Feb	398.8	11.6	387.2	+ 11.8	460.8	14.5	446.3	+ 44.1
	Mar	342.1	8.5	333.7	- 23.7	431.4	11.5	419.9	+ 50.3
	Apr	357.1	7.0	350.1	- 3.8	396.4	8.4	388.0	+ 6.6
	May	320.8	21.9	298.9	- 38.2	425.4	10.7	414.7	+ 14.2
	Jun	315.5	10.2	305.3	- 38.3	403.4	11.7	391.8	+ 9.3
	Jul	429.1	10.7	418.4	- 35.2	427.9	12.1	415.7	+ 16.7
	Aug	384.4	8.0	376.4	- 14.8	419.6	10.1	409.6	+ 20.9
	Sep	456.6	55.5	401.1	- 41.9	451.8	12.9	438.9	- 3.9
	Oct	420.2	25.6	394.6	- 40.2	549.0	30.5	518.5	- 2.9
	Nov	375.3	10.8	364.5	- 38.5	432.3	18.4	413.9	+ 3.8
	Dec	328.6	7.5	321.1	- 26.8	317.5	10.1	307.4	- 22.5
1988	Jan	344.4	11.0	333.3	- 22.1	321.5	8.4	313.1	+ 26.2
	Feb	345.2	9.4	335.8	- 51.5	406.6	11.3	395.3	- 51.0

EMPLOYMENT

The new figures available this month relate to employees in employment in manufacturing industry in Great Britain in January 1988. For manufacturing industry as a whole employment is unchanged compared with December 1987. However the monthly figures can be erratic and over the last six months (August 1987 to January 1988), there has been a reduction of 7,000.

Figures for employees in the rest of the economy and for the employed labour force (employees in employment, the self-employed and HM Forces) in Great Britain have been slightly revised to reflect some late and revised data now available. The pattern shown by the estimates is unchanged. The employed labour force is estimated to have increased by 461,000 in the year to September 1987 and by 1,508,000 since March 1983.

The third quarter of 1987 was the eighteenth successive quarter in which the employed labour force increased. The rate of increase which had been strengthening between March 1986 and June 1987, slowed in the September quarter. The increase of 75,000 in the September quarter compares with an increase of 155,000 in the June quarter.

Recent figures are set out in Table 5.

Personal and Confidential until 11.30 am 17.3.88

TABLE 5
THE EMPLOYED LABOUR FORCE IN GREAT BRITAIN

Thousand: seasonally adjusted

		Employees in employment											Employed labour force including self-employed and HM Forces)		
		Manufacturing Industries			Energy & Water Supply Industries			Service Industries		Other Industries		All Industries and Services			
		Levels	Changes		Levels	Changes		Levels	Changes	Levels	Changes	Levels	Changes	Levels	Changes
			Mon-thly	Three* monthly	Quar-terly		Mon-thly	Quar-terly							
1986	March	Q1 5,205	- 7	-13	- 39	540	- 4	-17	R 14,031	+ 78R	1,291	- 9	R 21,067	+ 13R	23,952R + 16R
	April	5,197	- 8	-14		537	- 3								
	May	5,165	-32	-16		534	- 3								
	June	Q2 5,147	-18	-19	- 58	530	- 4	-10	14,115	+ 84R	1,291	0	21,083	+ 16R	23,971R + 19R
	July	5,127	-20	-23		525	- 5								
	August	5,112	-15	-18		521	- 4								
	September	Q3 5,104	- 8	-14	- 43	519	- 2	-11	14,195	+ 80R	1,277	-14	21,096	+ 13	24,044R + 73R
	October	5,098	- 6	-10		516	- 3								
	November	5,097	- 1	- 5		510	- 6								
	December	Q4 5,090	- 7	- 5	- 14	508	- 2	-11	14,265	+ 70R	1,280	+ 3	21,143	+ 47R	24,147 +103R
1987	January	5,065	-25	-11		501	- 7								
	February	5,062	- 3	-12		499	- 2								
	March	Q1 5,054	- 8	-12	- 36	493	- 6	-15	14,374	+109	1,292	+12	21,213	+ 70	24,275 +128
	April	5,047	- 7	- 6		487	- 6								
	May	5,051	+ 4	- 4		486	- 1								
	June	Q2 5,058	+ 7	+ 1	+ 4	488	+ 2	- 5	14,467	+ 93	1,298	+ 6	21,310	+ 97R	24,430R +155R
	July	5,042	-16	- 2		485	- 3								
	August	5,039	- 3	- 4		483	- 2								
	September	Q3 5,029	-10	-10	- 29	485	+ 2	- 3	14,547	+ 80	1,294	- 4	21,355	+ 45R	24,505R + 75
	October	5,031	+ 2	- 4		480	- 5								
	November	5,040	+ 9	0		478	- 2								
	December	Q4 5,035	- 5	+ 2	+ 6	478	0	- 7							
1988	January	5,035	0	+ 1		474	- 4								

* = Average monthly change over last three months
R = Revised to incorporate late data now available

VACANCIES

The stock of unfilled vacancies at jobcentres (seasonally adjusted and excluding Community Programme vacancies) decreased by 1,600 in the month to February to reach 247,900. Over the past three months to February, seasonally adjusted vacancies have decreased on average by 6,800 per month.

Unadjusted, there was a decrease of 1,042 unfilled vacancies in the month to 256,862. There was a decrease of 442 Community Programme vacancies.

The inflow of notified vacancies increased on average by 100 per month in the three months ending February 1988, the outflow increased by 4,300 per month, and placings increased by 3,000 per month.

Recent figures are shown in tables 6, 7 and 8.

TABLE 6: UNFILLED VACANCIES - UNITED KINGDOM

THOUSAND

		VACANCIES AT JOBCENTRES+*					VACANCIES AT CAREERS OFFICES	
		UNADJUSTED		SEASONALLY ADJUSTED EXCLUDING COMMUNITY PROGRAMME			UNADJUSTED	
		Total	Community Programme Vacancies	Total excluding Community Programme	Number	Change since previous month	Average change over 3 months ended	
1987	Feb	216.0	27.9	188.1	207.0	-5.0	-1.8	13.8
	Mar	226.1	25.4	200.7	214.2	7.2	1.2	13.9
	Apr	240.0	24.5	215.5	217.7	3.5	1.9	15.9
	May	265.4	26.0	239.5	230.5	12.8	7.8	19.0
	Jun	275.8	28.0	247.9	233.7	3.2	6.5	23.5
	Jul	272.3	28.6	243.7	235.2	1.5	5.8	23.9
	Aug	269.9	30.2	239.6	236.9	1.7	2.1	22.6
	Sep	295.2	31.9	263.3	246.6	9.7	4.3	23.7
	Oct	312.2	32.0	280.2	261.4	14.8	8.7	23.1
	Nov	303.6	31.6	272.0	268.2	6.8	10.4	22.0
	Dec	271.4	31.7	239.7	256.6	-11.6	3.3	20.5
	1988	Jan	257.9	33.1	224.8	249.5	-7.1	-4.0	19.9
Feb		256.9	32.6	224.2	247.9	-1.6	-6.8	18.8

* See note C1.

+ Vacancies at jobcentres are only about a third of all vacancies in the economy. See note C3.

CONFIDENTIAL UNTIL 11:30am 17-3-88
 THE HONORABLE MEMBER FOR EMPLOYMENT

TABLE 7: VACANCY FLOWS AT JOBCENTRES-SEASONALLY ADJUSTED (EXCLUDING COMMUNITY PROGRAMME)

		UNITED KINGDOM				THOUSAND	
		INFLOW		OUTFLOW		of which: PLACINGS	
		Level	Average change 3 Months ended	Level	Average change 3 months ended	Level	Average change 3 months ended
1987	Feb	209.2	-5.4	213.9	-2.3	159.0	-1.8
	Mar	232.0	3.2	227.9	1.3	168.0	0.8
	Apr	230.2	3.8	225.0	2.7	162.4	0.4
	May	213.3	1.4	202.3	-3.9	147.6	-3.8
	Jun	229.9	-0.7	223.5	-1.5	162.5	-1.8
	Jul	220.0	-3.4	217.9	-2.4	154.3	-2.7
	Aug	222.7	3.1	218.5	5.4	154.8	2.4
	Sep	228.8	-0.4	215.9	-2.5	154.5	-2.7
	Oct	235.9	5.3	224.2	2.1	158.0	1.2
	Nov	237.5	4.9	230.9	4.1	159.7	1.6
	Dec	236.1	2.4	247.9	10.7	169.5	5.0
1988	Jan	223.6	-4.1	229.0	1.6	164.1	2.0
	Feb	237.9	0.1	243.9	4.3	168.6	3.0

TABLE 8: *UNFILLED VACANCIES - REGIONS - 5 February 1988

THOUSAND

	VACANCIES AT JOBCENTRES			SEASONALLY ADJUSTED (EXCLUDING COMMUNITY PROG VACANCIES)		VACANCIES AT CAREERS OFFICES
	UNADJUSTED*			Number	Change since previous month	UNADJUSTED
	TOTAL	Community Programme Vacancies	Total excluding Community Programme			
South East (Greater London)	96.7 (36.5)	5.1 (2.7)	91.6 (33.8)	100.1 (36.5)	-0.8 (-2.7)	12.2 (7.0)
East Anglia	8.4	0.6	7.8	8.7	-0.1	0.5
South West	19.5	2.8	16.8	19.5	-0.6	0.9
West Midlands	27.6	4.6	23.0	24.5	0.1	1.0
East Midlands	13.1	1.4	11.7	12.9	0.4	0.9
Yorks and Humberside	17.3	2.9	14.4	15.8	0.0	0.7
North West	23.3	3.4	19.9	21.9	-0.3	1.0
North	14.2	3.9	10.3	11.4	0.1	0.3
Wales	13.5	3.4	10.1	11.0	-0.1	0.2
Scotland	20.5	3.5	17.0	19.2	-0.2	0.5
GREAT BRITAIN	254.0	31.5	222.5	244.9	-1.4	18.0
Northern Ireland	2.8	1.1	1.7	3.0	-0.2	0.8
UNITED KINGDOM	256.9	32.6	224.2	247.9	-1.6	18.8

* The proportion of total vacancies at Jobcentres varies by region. See note C3.

AVERAGE EARNINGS

8 326/386

The underlying increase in average weekly earnings in the year to January was about 8½ per cent, similar to the increase in the year to December.

The actual increase in the year to January was 8.6 per cent, about the same as the estimated underlying increase.

TABLE 9: INDEX OF AVERAGE EARNINGS OF EMPLOYEES IN GREAT BRITAIN: WHOLE ECONOMY

	Index January 1980 = 100	Seasonally adjusted		
		Index	Percentage increase over previous 12 months	Underlying percentage increase over previous 12 months
1986				
September	186.8	187.1	6.1	7½
October	188.3	188.7	8.3	7½
November	191.2	190.2	8.1	7¾
December	193.4	191.3	7.4	7¾
1987				
January	190.4	192.8	7.6	7½
February	191.2	193.4	7.4	7½
March	194.5	194.8	6.7	7½
April	196.0	197.4	6.5	7¾
May	198.1	198.5	8.7	7¾
June	200.0	198.1	7.7	7¾
July	203.1	201.3	8.1	7¾
August	201.6	201.3	7.6	7¾
September	201.4	201.8	7.9	7¾
October	203.4	203.8	8.0	8
November	207.3	206.3	8.5	8½
December	210.3	208.0	8.7	8½
1988				
January *	206.8	209.5	8.7	8½

* Provisional

In production industries, the underlying increase in average weekly earnings in the year to January was about 8½ per cent, an increase of ¼ per cent on the year to December. Within this sector, in manufacturing industries, the underlying increase in average weekly earnings in the year to January was about 8½ per cent, an increase of ¼ per cent on the year to December. These increases include the effect of higher overtime working this year than a year ago.

The actual increases for production industries and manufacturing industries in the year to January were 8.0 per cent and 8.4 per cent respectively.

In service industries, the underlying increase in average weekly earnings in the year to January was about 8½ per cent, a decrease of ¼ per cent on the year to December. The actual increase in the year to January was 9.1 per cent.

TABLE 10: INDEX OF AVERAGE EARNINGS OF EMPLOYEES IN GREAT BRITAIN
MAIN SECTORS

Seasonally adjusted

	Production industries*			Manufacturing Industries**			Service Industries***		
	Index 1980=100	Percentage increases over previous 12 months		Index 1980=100	Percentage increases over previous 12 months		Index 1980=100	Percentage increases over previous 12 months	
		seas adj	underlying		seas adj	underlying		seas adj	underlying
1986									
October	195.2	8.0	7¼	195.2	7.9	7¼	187.4	8.7	7¼
November	196.6	7.8	8	197.1	7.8	7¼	190.5	8.5	7½
December	199.6	8.4	8	200.0	8.3	8	189.2	6.7	7½
1987									
January	199.9	7.8	7¼	200.0	7.8	7¼	190.3	7.7	7½
February	200.6	7.9	8	201.0	8.1	8	189.7	7.2	7¼
March	199.8	7.4	8	201.1	7.6	8	193.8	5.9	7¼
April	203.6	7.2	8	204.4	7.0	8	196.4	5.8	7¼
May	201.6	8.0	8	202.4	8.2	8	199.2	9.3	7¼
June	203.9	8.0	8¼	204.8	7.9	8¼	198.7	7.5	7½
July	206.4	8.7	8¼	207.6	9.0	8¼	200.4	7.7	7¼
August	207.8	8.2	8¼	207.2	8.0	8½	200.9	7.3	7¼
September	209.9	8.3	8¼	210.3	8.4	8½	200.1	7.6	7½
October	212.1	8.7	8¼	212.4	8.8	8¼	201.7	7.6	8
November	212.2	7.9	8¼	212.7	7.9	8¼	207.3	8.8	8½
December	215.9	8.2	8¼	216.8	8.4	8¼	206.7	9.2	8¼
January (prov)	215.8	8.0	8½	216.8	8.4	8½	207.6	9.1	8½

* DIVISIONS 1-4 of SIC 1980 covering Energy and water-supply and manufacturing.

** DIVISIONS 2-4 of SIC 1980. Included in production industries.

*** DIVISIONS 6-9 of SIC 1980 covering Distribution, hotels and catering, repairs; Transport and communication; Banking, finance, insurance, business services and leasing; Other Services (including public administration, education, medical and other health services, etc).

UNIT WAGE AND SALARY COSTS

THIS PAGE WILL BE REVISED PRIOR TO PUBLICATION TO TAKE ACCOUNT OF UPDATED AND REVISED UNIT WAGE COST ESTIMATES WHICH WILL THEN BE AVAILABLE.

In the three months ending December 1987, wages and salaries per unit of output in manufacturing industries were 2.0 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in manufacturing (see Table 10) as there was a rise of over 6 per cent in productivity over this period (see Table 13).

In the third quarter of 1987, wages and salaries per unit of output in the whole economy were 3.3 per cent above the corresponding period of 1986. This increase was below the rise in average earnings in the whole economy as there was a rise of about 3½ per cent in productivity over this period.

Recent figures are:

TABLE 11: WAGES AND SALARIES PER UNIT OF OUTPUT

	Manufacturing		Whole Economy	
	Index 1980 = 100	Percentage increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985 Q3	125.8	6.5	133.1	6.1
Q4	128.7	6.2	134.3	4.4
1986 Q1	131.4	8.6	136.9	6.2
Q2	130.8	6.9	138.2	6.5
Q3	130.3	3.6	138.9	4.4
Q4	130.4	1.3	140.8	4.8
1987 Q1	132.5	0.8	141.7	3.5
Q2	131.9	0.8	143.9	4.1
Q3	131.3	0.8	143.5	3.3
Q4	133.0	2.0		
1987 Aug	129.7	-0.8	..	..
Sept	132.0	1.0	..	..
Oct	132.0	1.7	..	..
Nov	132.0	1.6	..	..
Dec	135.0	2.7		
<u>3 months ending</u>				
1987 Aug	131.4	1.0
Sept	131.3	0.8
Oct	131.2	0.6
Nov	132.0	1.4
Dec	133.0	2.0		

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HOURS WORKED IN MANUFACTURING INDUSTRIES

Overtime working by operatives in manufacturing industries rose in January to 14.54 million hours per week after allowing for normal seasonal influences. However the monthly figures can be erratic and until later estimates become available, it is too early to say whether this represents a step up in the level of overtime or an erratic fluctuation.

Hours lost through short-time working in manufacturing industries remain very low, at 0.25 million hours per week in January.

The index of average weekly hours worked by operatives in manufacturing industries (which takes account of hours of overtime and short-time as well as normal basic hours) was estimated at 104.6 in January 1988 giving an average of 104.1 over the three month period ending January 1988.

Recent figures are set out in Table 12.

TABLE 12: WORKING HOURS OF OPERATIVES IN MANUFACTURING INDUSTRIES

Great Britain, seasonally adjusted

	Hours of overtime worked	Hours lost through short-time working (stood off for whole or part of week)	Index of average weekly hours (average 1980 = 100)
	Millions per week	Millions per week	
1986 Jun	11.28	0.45	102.6
Jul	11.66	0.39	102.9
Aug	11.77	0.43	102.9
Sep	11.68	0.43	102.8
Oct	11.77	0.81	102.6
Nov	12.06	0.48	102.9
Dec	11.62	0.51	102.9
1987 Jan	11.47	0.57	102.7
Feb	12.09	0.42	103.1
Mar	12.27	0.36	103.3
Apr	12.44	0.41	103.2
May	12.38	0.37	103.2
June	12.68	0.31	103.5
Jul	12.49	0.35	103.3
Aug	12.70	0.28	103.5
Sep	12.96	0.24	103.6
Oct	13.66	0.29	104.0
Nov	13.58	0.38	103.8
Dec	13.42	0.28	104.0
1988 Jan	14.54	0.25	104.6

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PRODUCTIVITY

THIS PAGE WILL BE REVISED PRIOR TO PUBLICATION TO TAKE ACCOUNT OF UPDATED AND REVISED PRODUCTIVITY ESTIMATES WHICH WILL THEN BE AVAILABLE.

Manufacturing output per head in the three months to December was 1.4 per cent higher than in the three months ending September and 6.3 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the third quarter of 1987 was 1.7 per cent above the previous quarter and 3.5 per cent higher than in the third quarter of 1986.

Recent figures are:

TABLE 13: OUTPUT PER HEAD

seasonally adjusted, U.K.

		Manufacturing		Whole Economy	
		Index 1980 = 100	Percentage Increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985	Q3	130.4	2.4	114.0	2.1
	Q4	130.1	2.2	114.7	2.2
1986	Q1	129.6	-0.6	114.9	1.5
	Q2	132.5	0.7	116.6	1.9
	Q3	134.9	3.5	117.8	3.3
	Q4	138.5	6.5	118.5	3.3
1987	Q1	138.7	7.0	119.0	3.6
	Q2	141.4	6.7	119.9	2.8
	Q3	145.3	7.7	121.9	3.5
	Q4	147.2	6.3		
1987	Aug	146.2	8.9	..	..
	Sept	145.8	7.4	..	..
	Oct	147.3	7.0	..	..
	Nov	147.4	6.2	..	..
	Dec	147.0	5.6		
<u>3 months ending</u>					
1987	Aug	143.8	7.2	..	..
	Sept	145.3	7.7	..	..
	Oct	146.4	7.8	..	..
	Nov	146.8	6.9	..	..
	Dec	147.2	6.3		

Industrial stoppages

In January 1988, it is provisionally estimated that 86 thousand working days were lost in the United Kingdom through stoppages of work due to industrial disputes. This compares with a provisional estimate of 42 thousand in December 1987, 889 thousand in January 1987 and an average of 1,139 thousand for January during the ten year period 1978 to 1987.

During the twelve months to January 1988 it is provisionally estimated that a total of 2,722 thousand working days were lost through stoppages of work due to industrial disputes. During this twelve month period a total of 867 stoppages have been provisionally recorded as being in progress, involving a total of 820 thousand workers. The comparable figures for the twelve months to January 1987 were 2,593 thousand lost working days, 1,111 stoppages in progress and 810 thousand workers.

Table 14. Industrial stoppages in progress in the United Kingdom.

	Working days lost (thousand)	Number of Stoppages	Workers involved (thousand)
1987			
Jan	889	111	170
Feb	928	123	144
Mar	250	115	215
Apr	334	127	137
May	218	87	103
Jun	378	100	125
Jul	220	88	57
Aug(p)	42	68	22
Sep(p)	50	76	18
Oct(p)	71	72	22
Nov(p)	103	73	64
Dec(p)	42	44	25
1988			
Jan(p)	86	49	36
<u>Cumulative totals</u>			
12 months to January 1987(p)	2,593	1,111	810
12 months to January 1988(p)	2,722	867	820

(p) Provisional and subject to revision, normally upwards, see note H1.

NOTES TO EDITORS

GENERAL SYMBOLS

The following symbols are used throughout: .. not available, - nil or negligible, p provisional, r revised. Occasionally, totals may differ from the sum of components because of rounding or separate seasonal adjustments of components.

UNEMPLOYMENT (Tables 1-4)

A1. The unemployment figures are derived from records of claimants of benefit held at Unemployment Benefit Offices. The term "claimants" in the unemployment count is used to include those who claim unemployment benefit", supplementary benefits or national insurance credits. The figures include the severely disabled but exclude students seeking vacation work and the temporarily stopped (see below). A full description of the system of compiling the figures appeared in the September 1982 *Employment Gazette*.

A2. The unemployment figures exclude students who are claiming benefit during a vacation but who intend to return to full-time education when the new term begins. From November 1986 most students have only been eligible for benefits in the summer vacation. On 11 February 1988 these numbered 1,383 in Great Britain and in the United Kingdom.

A3. The figures exclude temporarily stopped workers, that is, those who had a job on the day of the count but were temporarily suspended from work on that day and were claiming benefits. On 11 February 1988 these numbered 6,847 in Great Britain and 8,419 in the United Kingdom.

A4. The school leaver figures relate to people under 18 years of age who have not entered employment since completing full-time education. Part of the change in the count of school leavers between one month and the next reflects some of them reaching the age of 18. The unemployment count excludes school leavers not yet entitled to benefit; for June, July, and August, the months mainly affected, a special count of those registering at Careers Offices is provided.

A5. Regional unemployment rates are calculated by expressing the number of unemployed as a percentage of the estimated total working population (the sum of employees in employment, unemployed, self-employed and HM Forces) at mid-1987. These rates include the self-employed and armed forces in the base to provide a more reliable guide to the incidence of unemployment among the whole workforce. Until July 1986, all rates were expressed as a percentage of employees plus the unemployed only. These narrower based rates, continue to be used for local areas (travel-to-work areas and counties) because estimates for the self-employed and armed forces needed to calculate the new rates are not made below regional level. The UK narrower rates on 11 February 1988 were 13.3 per cent for males and 7.5 per cent for females, 10.8 per cent in total (unadjusted).

A6. The latest figures for national and regional seasonally adjusted unemployment are provisional and subject to revision, mainly in the following month. The seasonally adjusted series takes account of all past discontinuities to be consistent with the current coverage. (See the article 'Unemployment adjusted for discontinuities and seasonality' in the July 1985 *Employment Gazette*, and also page 422 of the October 1986 edition).

A7. The unemployment flows, in table 3 relate to people claiming and ceasing to claim benefit in the United Kingdom. A seasonally adjusted series cannot yet be estimated. The figures are standardised to a four and one third week month to allow for the varying periods between successive monthly count dates, and may, therefore, appear not to balance the monthly changes in unemployment levels. It may also be noted that while changes in the level of unemployed school leavers are affected by some of them reaching the age of 18 (see note A4), the outflow figures relate only to those aged under 18 leaving the count.

EMPLOYMENT (Table 5)

B1. Information on the number of employees in employment is for most industries collected quarterly and monthly from sample surveys addressed to individual establishments and for other industries from returns provided by major employers in the industry. These figures are used to calculate rates of change in employment since the last Census of Employment was held, and the rates of change are applied to comprehensive census results to provide current estimates.

B2. The surveys cover all large establishments and a proportion of small establishments (but none of the smallest employers). 30,000 establishments are surveyed each quarter month (e.g. in March, June etc.), and of these 12,000 are in manufacturing industries. 6,000 of the manufacturing establishments are also surveyed in non quarter months. Estimates for these months are less reliable than those for quarter months, and the first estimates are subject to revision when the following quarters figures become available (e.g. January and February estimates are revised in the light of figures for March). As the estimates of employees in employment are derived from employers' reports of the numbers of people they employ, individuals holding two jobs with different employers will be counted twice. Participants in government employment and training schemes are included if they have a contract of employment. HM forces, homeworkers and private domestic servants are excluded.

B3. The estimates of employees in employment presented in this press notice also take account of the results of the 1985, 1986 and 1987 sample Labour Force Surveys. The series include allowances for undercounting in the estimates of the number of employees in employment derived from the sample survey of employers. Since the second quarter of 1986, 33,900 per quarter has been added to the raw estimates of total employees in employment based on the sample. The reasoning behind such allowances is described in the *Employment Gazette* April 1987 (page 201).

B4. The self employed are those who in their main employment work on their own account, whether or not they have any employees. Second occupations classified as self employed are not included.

B5. Comprehensive estimates of the number of self-employed are taken from the Census of Population, the most recent of which was held in 1981. Estimates for the other years are made by applying rates of change, derived from the sample Labour Force Survey results, to the census benchmark. In this way self employment is estimated to have increased by 12,800 a quarter between mid 1981 and mid 1983, by 68,800 a quarter between mid 1983 and mid 1984, by 28,800 a quarter between mid 1984 and mid 1985, by 4,100 a quarter between mid 1985 and mid 1986, by 58,500 a quarter between mid 1986 and mid 1987. Pending the results of the 1988 Labour Force Survey it is assumed that the numbers of self employed are continuing to increase at the rate of 31,000 a quarter observed between 1981, the date of the latest Census of Population which provides a benchmark for the self employment series, and 1987, the date of the latest available Labour Force Survey data. The derivation of recent estimates is described in the *Employment Gazette*, March 1988 page 144.

B6. Figures for HM Forces are provided by the Ministry of Defence.

B7. The employed labour force comprises employees in employment, the self employed and HM forces.

VACANCIES (Tables 6-8)

C1. The vacancy statistics include self-employed vacancies and exclude vacancies handled by Professional and Executive Recruitment. Community Programme vacancies at Jobcentres are included in the unadjusted total, but excluded from the seasonally adjusted series. Figures are available back to 1980. For further details see the October 1985 *Employment Gazette*.

C2. Vacancies at Jobcentres are mainly for adults aged 18 or over, but include some vacancies for persons under 18. Vacancies at Careers offices are mainly for young persons under 18 years of age, but include some vacancies suitable for adults. Where the vacancy is notified to both services by an employer, it will be included in both counts; for this reason, the two counts should not be added together to give a figure for total vacancies.

C3. The figures of vacancies published in this press notice do not represent the total number of vacancies in the economy. Latest estimates suggest that nationally about one third of all vacancies are notified to Jobcentres; and about one quarter of all engagements are made through Jobcentres. Inflow, outflow, and placings figures are collected for four or five week periods between count dates; the figures in this press notice are converted to a standard four and one third week month.

EARNINGS (Tables 9 and 10)

D1. The whole economy index of average earnings was introduced from January 1976. It was described in the April 1976 issue of *Employment Gazette*. The present series is based on January 1980 = 100. Separate indices for 26 industry groups of Standard Industrial Classification (1980) are published in the *Employment Gazette*.

D2. All the series are based on information obtained from the Department's monthly survey of a representative sample of firms in Great Britain, combined with information supplied by the Ministry of Agriculture Fisheries and Food about agricultural earnings in England and Wales. The survey obtains details of the gross wages and salaries paid to employees, in respect of the last pay week of the month for the weekly paid, and for the calendar month for the monthly paid. The earnings of the latter are converted into a weekly basis. The average earnings are obtained by dividing the total paid by the total number of employees paid, including those employees on strike. The sample of returns contains information relating to some 10 million employees.

D3. The analysis of underlying changes was described in *Employment Gazette*, April 1981, page 193, and the most recent analysis appeared in *Employment Gazette* in March 1988. The next analysis will appear in the June 1988 issue.

D4. The average earnings figures are not intended to measure solely the average increase in rates of pay for a standard week reflected in annual pay settlements. Changes in hours worked are not regarded as a temporary factor and therefore continue to influence the underlying rate. Irregular variations in bonuses, sickness, etc., on which no information is available, can also affect the underlying trend, as can changes in the composition of the labour force.

UNIT WAGE AND SALARY COSTS (Table 11)

E1. Wages and Salaries per unit of output in manufacturing is compiled using monthly series of average earnings, employment and output; it is described in *Employment Gazette*, June 1982, page 261. For wages and salaries per unit of output in the whole economy, the wages and salaries totals in the numerator are adjusted to incorporate the earnings of the self-employed, based on the ratio of the employed labour force to the number of employees in employment and HM Forces. The denominator is the output measure of gross domestic product at factor cost in constant prices and is consistent with the GDP press notice published on 15 March. For further information, see *Employment Gazette*, May 1986, page 172.

HOURS OF WORK (Table 12)

F1. The hours of overtime and short-time worked by operatives in manufacturing industries are collected by the surveys of individual establishments which are used to collect numbers of employees. Figures are collected monthly; those for non-quarter months are based on a smaller sample, and are therefore subject to retrospective revisions in the same way as the employee estimates.

F2. The index of average weekly hours relates to average weekly hours worked by operatives in manufacturing industries. It is based on the normal weekly hours of full time operatives as in national agreements plus average net overtime. The calculation of this index is described on page 240 of *Employment Gazette*, June 1983.

PRODUCTIVITY (Table 13)

G1. Index numbers of output per person employed are calculated by dividing an index of output by an index of the numbers employed. The indices are all based on 1980 = 100. The output series for the economy as a whole is the output-based measure of gross domestic product and is consistent with the GDP press notice published by the CSO on 15 March. This series is used so as to achieve consistency with the industrial analysis for which the indices of output for the production industries are used. The indices for employment are based on the employed labour force in the United Kingdom as defined in para B4 above, after combining mid-month estimates to reflect average levels of employment in the month or quarter as a whole.

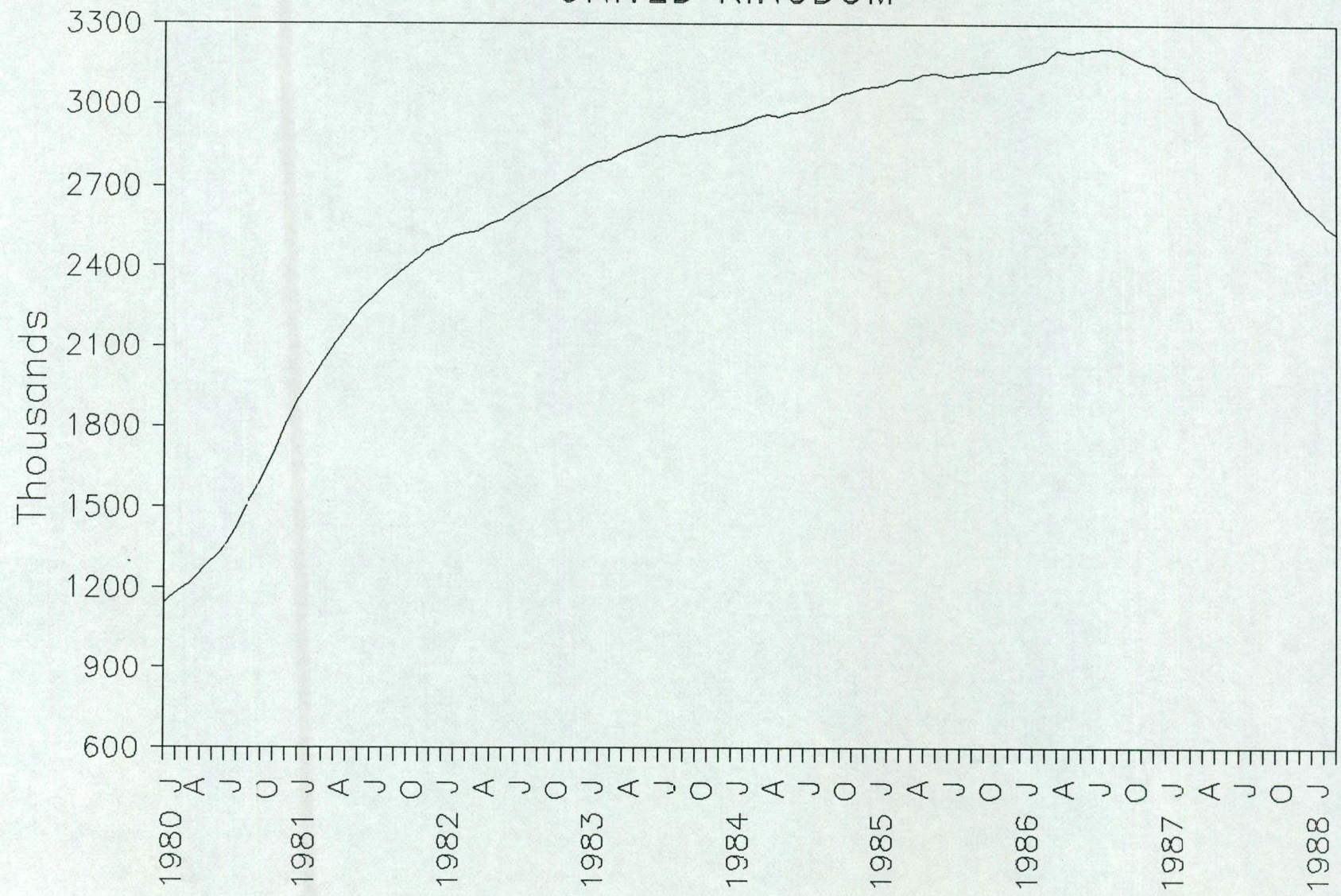
INDUSTRIAL STOPPAGES (Table 14)

H1. Statistics of stoppages of work due to industrial disputes in the United Kingdom relate only to disputes connected with terms and conditions of employment. Stoppage involving fewer than 10 workers or lasting less than one day are excluded except where the aggregate of working days lost exceeded 100. However, there are difficulties recording stoppages near the margin of this threshold and consequently greater emphasis should be placed on the figure for working days lost rather than on the number of stoppages. The monthly figures are provisional and subject to revision, normally upwards, to take account of additional or revised information received after going to press.

C19

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THEREAFTER UNCLASSIFIED.

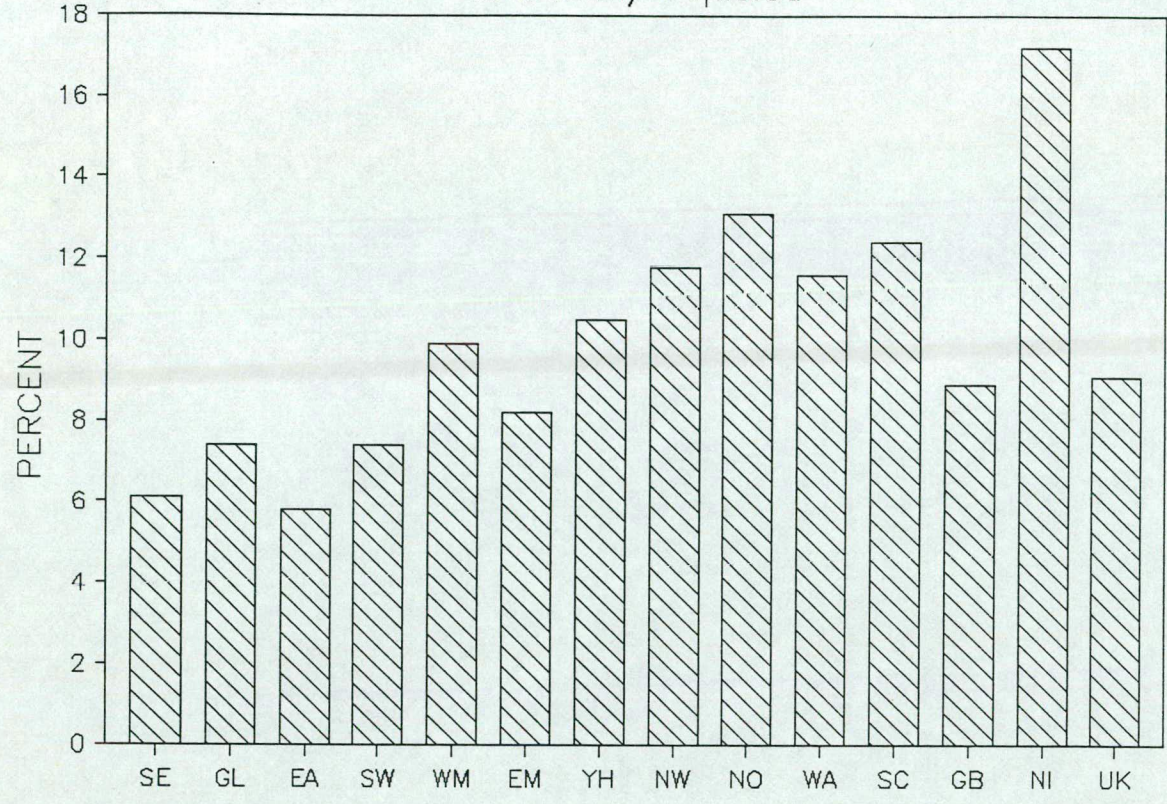
SEASONALLY ADJUSTED UNEMPLOYMENT UNITED KINGDOM



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THEREAFTER UNCLASSIFIED.

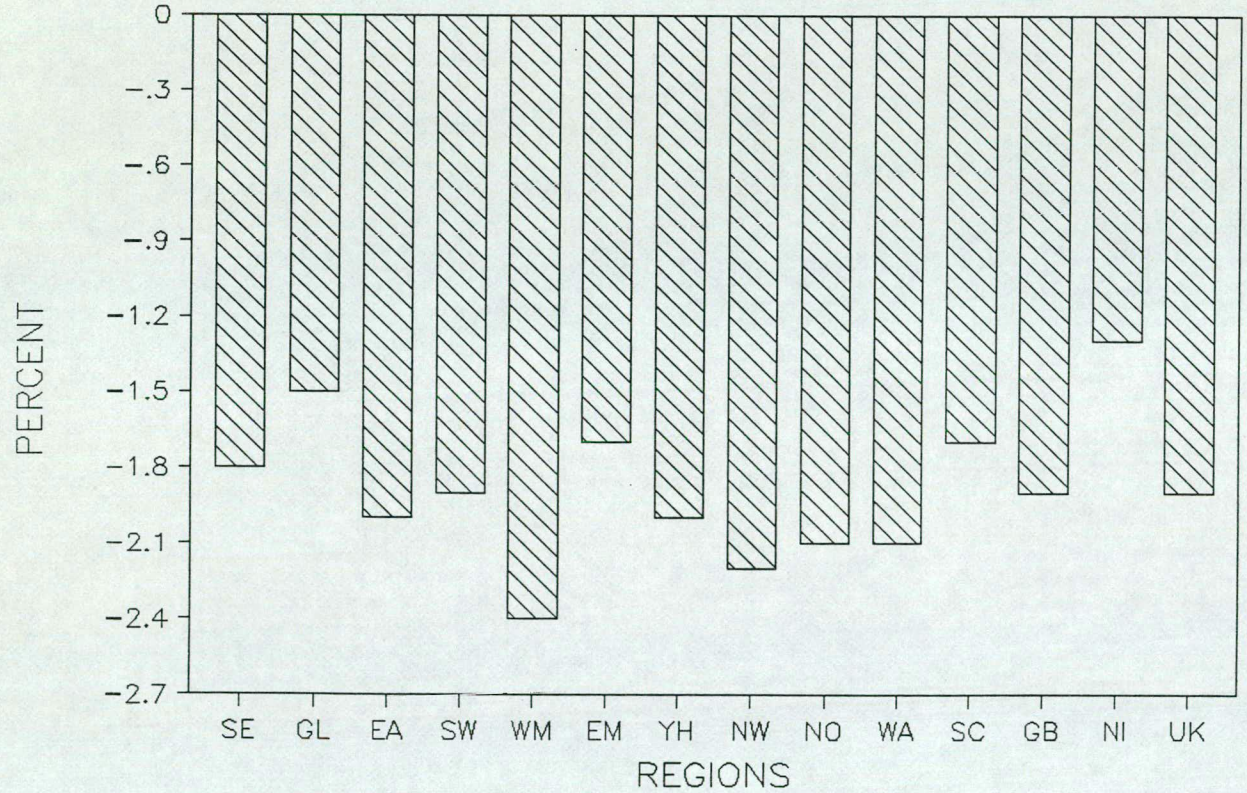
REGIONAL UNEMPLOYMENT RATES: Feb 1988

seasonally adjusted



ANNUAL CHANGE IN UNEMPLOYMENT RATES

Feb 1987 - Feb 1988



PERSONAL AND CONFIDENTIAL UNTIL 11.30 ON PRESS RELEASE DAY, 17 March 1988

C2.

UNEMPLOYMENT - regions and sex: Feb 1988
SEASONALLY ADJUSTED EXCLUDING SCHOOL LEAVERS

Unemployment
-regions and sex

REGIONS	NUMBER (Thousands)		UNEMPLOYMENT RATE (Per Cent)*		
	At Feb 1988	Change in month since Jan 1988	At Feb 1988	Change in month since Jan 1988	Change in year since Feb 1987
(1)					
South East	563.0	-9.9	6.1	-0.1	-1.8
(Greater London)	(317.6)	-1.0	7.4	-0.0	-1.5
East Anglia	58.2	-1.4	5.8	-0.1	-2.0
South West	152.0	-2.2	7.4	-0.1	-1.9
West Midlands	258.1	-4.4	9.9	-0.2	-2.4
East Midlands	158.4	-1.1	8.2	-0.1	-1.7
Yorks & Humber	245.7	-3.1	10.5	-0.1	-2.0
North West	351.4	-4.7	11.8	-0.2	-2.2
North	187.3	-1.2	13.1	-0.1	-2.1
Wales	136.7	-1.3	11.6	-0.1	-2.1
Scotland	303.5	-2.7	12.4	-0.1	-1.7
GREAT BRITAIN	2414.2	-32.1	8.9	-0.1	-1.9
Northern I.	117.1	-1.3	17.2	-0.2	-1.3
UNITED KINGDOM	2531.3	-33.4	9.1	-0.1	-1.9
MALES AND FEMALES					
UK Males	1755.5	-28.0	10.7	-0.2	-2.2
UK Females	775.8	-5.4	6.7	-0.0	-1.5

* Percentage of whole working population (new basis, taking account of self-employed and armed forces)

Unemployment by Duration

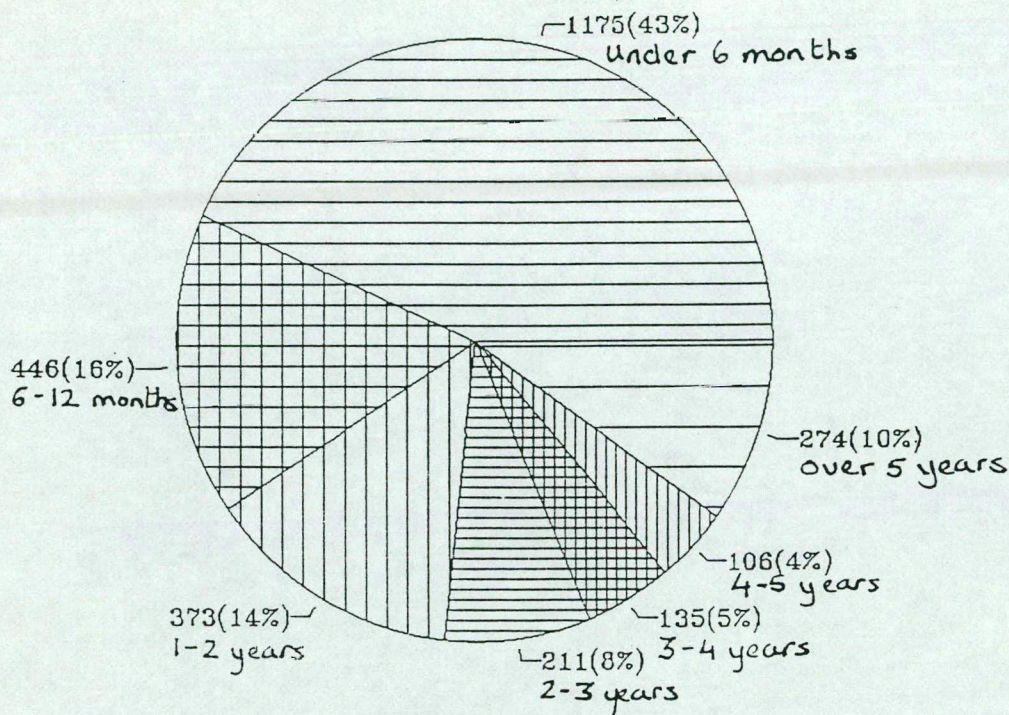
Duration	Number at JANUARY 1988	THOUSANDS Change since JANUARY 1987
All durations	2722	-575
Over 6 months	1547	-365
Over 1 year	1101	-234
Over 2 years	727	-109
Over 3 years	516	-68
Over 4 years	381	-24
Over 5 years	274	+11

Up to 6 months	1175	-210
6 to 12 months	446	-131
1 to 2 years	373	-125
2 to 3 years	211	-41
3 to 4 years	135	-44
4 to 5 years	106	-35
Over 5 years	274	+11

Unemployment by Age

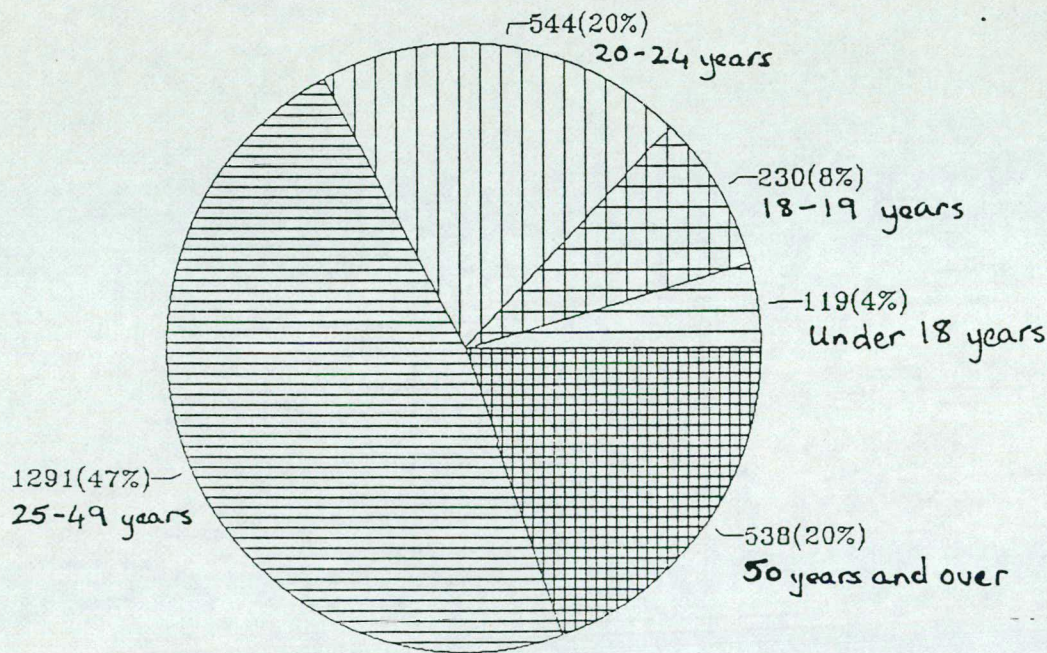
	Number at JANUARY 1988	THOUSANDS Change since JANUARY 1987
Under 18	119	-43
18-19	230	-68
20-24	544	-128
25-50	1291	-249
50 and over	538	-86
All ages	2722	-575

U.K. UNEMPLOYMENT BY DURATION
THOUSANDS



JANUARY 1988

U.K. UNEMPLOYMENT BY AGE
THOUSANDS



JANUARY 1988

PERSONAL AND CONFIDENTIAL UNTIL 11.30 AM ON 17 MARCH 1988
AND THEREAFTER CONFIDENTIAL

C4

*To nearest thousand

Department of Employment Scheme Participants GB with and without the employed labour force (to nearest thousand)

=====

Scheme Participants in the GB employed Labour Force

Scheme Participants outside employed labour force

	EAS	CP	CI	NWS*	YOP+	YTS++	YTS++	JTS	JRS
March 83	2	39	8	103	234	0	0		79
June 83	2	64	8	93	154	2	19		81
Sept 83	8	97	8	103	69	17	156		85
Dec 83	20	115	8	105	22	26	231		88
Mar 84	27	113	8	98	22	25	227		95
June 84	37	120	8	70	4	24	220		91
Sept 84	39	123	8	63		29	258		86
Dec 84	39	130	8	57		28	251		78
Mar 85	41	133	8	52		25	227		70
June 85	48	138	8	43		24	212		61
Sept 85	49	151	8	50		30	266		54
Dec 85	52	174	8	57		28	250		48
Mar 86	55	200	8	51		24	219		43
June 86	60	221	8	31		27	243		37
Sept 86	66	235	8	28		33	300		32
Dec 86	74	248	8	33		32	291	1	27
March 87	81	244	8	34		30	269	2	24
Apr 87	85	238	8	32		30	272	3	23
May 87	87	235	8	29		29	263	8	22
June 87	90	232	8	24		35	316	13	22
July 87	93	231	8	18		38	341	17	21
Aug 87	94	229	8	18		39	353	20	21
Sept 87	96	229	8	18		43	384	22	21
Oct 87	97	224	8	19		42	373	24**	20
Nov 87	96	222	8	20		41	371	25	20
Dec 87	96	221	8	19		41	365	24	19
Jan 88	95	221	7	19		40	356	26	19

* Figures prior to June 1986 relate to similar Young Workers Scheme

+ Excludes trainers

++ Excludes trainers, figures for latest months subject to revisions:
participants in employed labour force have contracts of employment.

** Stats B Estimate

72

International Comparisons of Unemployment Levels

Although unemployment in the UK has been falling more rapidly than in other countries, the unemployment rate remains relatively high. The following table gives the latest figures on national definitions, which are not strictly comparable owing to national differences in coverage and concepts of unemployment, together with the available OECD standardised rates which are recommended for comparing levels of unemployment.

RECOMMENDED

OECD STANDARDISED RATES

UNEMPLOYMENT, NATIONAL DEFINITIONS

Seasonally adjustedSeasonally adjustedUnadjusted

	<u>Latest month</u>	<u>% rate</u>	<u>Number (000s)</u>	<u>% rate</u>	<u>Number (000s)</u>	<u>% rate</u>	<u>Latest month</u>
Spain	Aug	19.0	2,980	20.9	3,024	21.2	Dec
Ireland	..	..	245	18.9	251	19.4	Feb
Belgium	Dec	10.5	412 ^e	15.0 ^e	428	15.6	Feb
France	Dec	10.5	2,578	10.4 ^a	2,689	10.9 ^a	Jan
Netherlands	Dec	9.5	680	13.9	700	14.4	Jan
<u>United Kingdom</u>	Dec	9.0	2,531	9.1	2,665	9.6	Feb
Italy ^a	+	+	2,945	12.4	2,871	12.0	July
Canada ^a	Dec	8.0	1,072	8.1	1,161	8.9	Jan
Denmark	..	..	218	8.0	215	7.9	Nov
Australia ^a	Dec	7.7	610	7.8	620	7.8	Dec
Germany	Nov	7.0	2,222	7.9	2,517	8.9	Feb
Greece	..	..	..	..	137	7.3	Dec
Portugal	Aug	? 6.8	301	7.0	310	7.2	Dec
Austria	..	..	174 ^e	6.1 ^e	201	7.1	Dec
United States ^a	Dec	5.7	6,938	5.7	7,482	6.2	Feb
Japan ^a	Nov	2.7	1,660	2.7*	1,560	2.5	Nov
Norway	Nov	2.3	33	2.3	31	2.1	Nov
Sweden ^a	Dec	1.6	71	1.7	71	1.8	Dec
Luxembourg	..	..	..	..	3	1.8	Dec
Switzerland	..	..	..	..	21	0.7	Nov

e estimated

a Survey Sources

.. Not available

+ Recent standardised rates for Italy not available, pending review of new information from EC Labour Force Survey.

* October figures

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attached reports etc

The following table shows the changes in unemployment, both in terms of percentage increases and, more significantly, changes in percentage rates. The latter are recommended for comparison.

UNEMPLOYMENT, LATEST MONTH COMPARED WITH A YEAR EARLIER

<u>Unadjusted unemployment, national definitions</u>				
<u>RECOMMENDED</u>				
	<u>Change in % rate</u>	<u>Change (000s)</u>	<u>% Change in total</u>	<u>Latest month</u>
Italy	+ 0.7	+ 170	+ 5	Dec
Spain	+ 0.3	+ 122	+ 4	Dec
Austria	+ 0.2	+ 1	+ 1	Dec
Luxembourg	+ 0.1	NC	+ 12	Dec
Germany	+ 0.1	+ 29	+ 1	Feb
Denmark	NC	+ 1	+ 1	Nov
Switzerland	NC	- 1	- 5	Nov
Ireland	- 0.1	- 2	- 1	Feb
Japan	- 0.1	- 30	- 2	Nov
Greece	- 0.2	- 2	- 1	Dec
France	- 0.2	- 40	- 2	Jan
Norway	- 0.2	- 2	- 5	Nov
Netherlands	- 0.3	- 12	- 2	Jan
Australia	- 0.6	- 36	- 6	Dec
Sweden	- 0.6	- 26	- 30	Dec
Belgium	- 1.0	- 25	- 6	Feb
USA	- 1.0	-1021	- 12	Feb
Portugal	- 1.3	- 58	- 16	Dec
Canada	- 1.6	- 181	- 14	Jan
<u>United Kingdom</u>	- 2.0	- 560	- 17	Feb

NC = No Change

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attache reports etc

When assessing the change in unemployment in more recent periods than over the past year, seasonally adjusted figures need to be used. The following table compares seasonally adjusted figures for the latest three months with the previous three months. An additional table C4d shows monthly figures for selected countries.

UNEMPLOYMENT, LATEST 3 MONTHS COMPARED WITH PREVIOUS 3 MONTHS

Seasonally adjusted, national definitions

RECOMMENDED

	<u>Change in percentage rate</u>	<u>Change Number (000s)</u>	<u>Percentage Changes</u>	<u>Latest month</u>
Spain	+ 0.3	+ 38	+ 1	Dec
Norway	+ 0.2	+ 2	+ 7	Nov
Austria	+ 0.2	+ 7	+ 4	Dec
Italy	NC	+ 14	NC	Dec
Denmark	NC	+ 1	+ 1	Nov
Netherlands	NC	NC	NC	Jan
Sweden	NC	- 3	- 3	Dec
Australia	- 0.1	- 2	NC	Dec
Ireland	- 0.1	- 2	- 1	Feb
Germany	- 0.1	- 15	- 1	Feb
Portugal	- 0.1	- 5	- 2	Dec
France	- 0.1	- 40	- 2	Jan
United States	- 0.1	- 132	- 2	Feb
Japan	- 0.2	- 123	- 7	Oct
Belgium	- 0.4	- 12	- 3	Feb
Canada	- 0.5	- 56	- 5	Jan
<u>United Kingdom</u>	- 0.5	- 142	- 5	Feb

Note Seasonally adjusted figures not available for Greece, Luxembourg and Switzerland.

NC = No change

Sources:- OECD "Main Economic Indicators" supplemented by Labour Attache reports etc

Seasonally Adjusted levels and rates of registered unemployment

Month	UK		France		Germany		Italy		Spain	
	Level	Rate	Level	Rate	Level	Rate	Level	Rate	Level	Rate
Sep 1985	3123	11.3	2467	10.6	2298	8.2	2989	13.0	2648	19.5
Oct	3127	11.3	2452	10.5	2297	8.2	3031	13.2	2662	19.5
Nov	3127	11.3	2448	10.5	2307	8.2	3040	13.3	2700	19.8
Dec	3144	11.4	2441	10.5	2299	8.2	3061	13.4	2686	19.7
Jan 1986	3154	11.4	2442	10.5	2282	8.2	3082	13.4	2717	19.8
Feb	3165	11.4	2446	10.5	2289	8.2	3127	13.6	2713	19.8
Mar	3205	11.5	2468	10.6	2268	8.1	3121	13.6	2739	20.0
Apr	3195	11.5	2490	10.7	2240	8.0	3158	13.7	2742	20.0
May	3200	11.5	2517	10.8	2242	8.0	3189	13.9	2735	19.9
June	3209	11.6	2523	10.8	2222	7.9	3207	14.0	2724	19.8
July	3210	11.6	2541	10.9	2207	7.9	3204	13.9	2732	19.8
Aug	3206	11.5	2557	11.0	2201	7.8	3212	14.0	2727	19.8
Sep	3186	11.5	2550	10.9	2189	7.8	3233	14.0	2758	20.0
Oct	3164	11.4	2544	10.9	2179	7.8	3243	14.0	2781	20.0
Nov	3151	11.3	2549	10.9	2174	7.7	3192	13.8	2825	20.3
Dec	3121	11.2	2574	10.5*	2175	7.8	3268	14.0	2840	20.4
Jan 1987	3112	11.2	2613	10.6	2193	7.8	3238	13.9	2865	20.5
Feb	3067	11.0	2655	10.7	2189	7.8	3286	14.1	2879	20.6
Mar	3037	10.9	2676	10.7	2225	7.9	3263	14.0	2902	20.7
Apr	3021	10.8	2659	10.7	2226	7.9	3136	13.4	2906	20.3
May	2951	10.6	2661	10.7	2219	7.9	3233	13.8	2918	20.4
June	2922	10.5	2645	10.6	2240	7.9	3239	13.9	2922	20.4
July	2873	10.3	2638	10.6	2251	8.0	3297	14.2	2927	20.5
Aug	2826	10.1	2649	10.7	2246	8.0	3373	14.5	2920	20.4
Sep	2772	9.9	2597	10.5	2252	8.0	3376	14.5	2944	20.6
Oct	2714	9.7	2572	10.4	2249	8.0	3340	14.4	2961	20.7
Nov	2651	9.5	2546	10.4	2242	7.9	3335	14.3	2965	20.7
Dec	2614	9.4	2573	10.4	2256	8.0	3414	14.7	2980	20.9
Jan 1988	2565	9.2	2577	10.4	2221	7.9				
Feb	2531	9.1			2222	7.9				

* Rates for France revised from this point to take account of latest Labour Force Survey.

Revisions for earlier dates still awaited.

Andrew ← Puf
(for filing)

CHANCELLOR

GA Smith Spd

FROM: A G TYRIE
DATE: 15 MARCH 1988

cc Chief Secretary
Financial Secretary
Paymaster General
Economic Secretary
Mr Pickford
Mr Hudson
Mr Cropper
Mr Call


GORDON BROWN

(x) W
'stake-tin'
'loom'!

I think you might be able to make use of the crystal ball in the attached cutting during your wind up. I have asked EB to produce a figure for the fall in unemployment since the end of October 1986. — Attached: 630,000.

It might also be worth looking at his article (attached) in the New Statesman last week. Clearly shelters will be one of his themes and he'll probably have a go at BES for renting.

No doubt somebody on the other side will also ^{raise} ~~revise~~ Shelbourne's £92 lunch allowance.


A G TYRIE

MF JH
Gordon Brown

IF unemployment is not now three millions in five years, then I am not worth re-... Mr Norman Tebbit would a radio interviewer in the run-up to the last election three and a half years ago.

If the counting methods then being used were still being applied, the figure for today would be around 3.8 million and no doubt Mr Tebbit would be preparing to do the honourable thing. His position has been made only a little easier by the nine intervening, and eight previous, changes in how unemployment is calculated. Thanks to them it is officially 3.2 million, or just 150,000 higher than when he spoke.

He has still 18 months. Has he any chance of seeing the total drop below three million before he and his party face the electorate?

Not much, according to a document on Regional Development policy prepared by the Department of Trade and Industry for the European Commission and passed quietly to Brussels, evidently on the principle of "not in front of the voters". That document, not so much published as served away in the House of Commons library, includes a chillingly titled appendix, "Regional Job Deficiency Projections". In 1990 around 3.12 million of us will still be unemployed.

According to ministers, unemployment is always about to fall. The Prime Minister, herself normally evasive about unemployment, thought it had "peaked" as long ago as December 1983. In January 1984 she saw it "levelling off". In May 1983 the Chancellor thought "the tide was turning". Mr Tebbit has assured us that nobody but a blind man could fail to see the light ahead. Lord Young, with a newcomer's reticence in the matter of hyperbole, has confined himself to predicting a fall in the numbers of the long term unemployed and set to work to bring it about, as the October unemployment figures show, by the dubious fixings of the Restart Scheme.

But still there is that sombre figure owned up to in Brussels — 3.12 million unemployed in 1990 — and even that may be an underestimate, for civil servants remain gloomy. At a recent conference of industrialists on Merseyside, Mr William Anderson, the head of the DTI North West Office, predicted that in 1990 unemployment would be as high as 3.6 million, and the Department of Employment, whose statistics form the basis for the MSC Corporate Plan, takes a roughly similar view:

The civil service pessimism is in line with forecasts from most independent academic

sources. Cambridge Econometrics, for example, now predict rising unemployment at 3.2m in 1990 with 3m still out of work in 1995. The National Institute (3.07m in 1990), the London Business School (3.1m in 1989) and others all anticipate more than three million unemployed. Only from the monetarist bunker of Liverpool comes tidings of a fall, to 2.7 m, and it is doubtful if even Mrs Thatcher believes that now.

The Government simply cannot reduce unemployment by present economic policies. Manufacturing jobs are still being lost at the rate of 13,000 a month. Jobs in the public service dwindle, as do those in what is left of the public sector. As the Govern-

ment's regional report makes clear, "continuing restraint on public expenditure will directly constrain employment in public services and indirectly employment in the private sector."

Yet still the Government hold out for inertia. In a little publicised response to proposals to create ¼m jobs from the all party Select Committee on Employment, Ministers opt for dogma rather than argument. It is simply "impracticable," they say, to employ up to 300,000 in the construction industry and "impossible" for the health and social services to absorb a further 100,000 in unskilled and semi-skilled jobs.

Even the private sector cannot be expected to res-

fine a useful percentage of the unemployed out of unemployment, by measures which owe their inspiration to the Restart Scheme. Although that initiative, directed at the long term unemployed, has so far failed in its overt intention of creating jobs, it has dented long-term unemployment a little because many of the target group have been dissuaded, by one means or another, from claiming benefits. Unemployment figures among the long term out-of-work have started to improve quite encouragingly.

Now the Government will go further. Postal claimants, banished from employment offices as long ago as 1980, are being recalled for signing-on interviews. The over-

pond to financial support schemes and crate another 100,000 or so jobs. Such job creation, says the Government, would be "virtually impossible."

Yet the Government is going to have to do something to improve the unemployment figures before the general election, and so far the indications are that substance will be sacrificed to appearance, and that the little pre-election miracle will, of necessity, turn out to be just another series of statistical conjuring tricks. Not content with 17 previous assaults on the statistics for the unemployed, ministerial energies are being devoted to a direct assault on the unemployed themselves.

The plan is simply to de-

50s are being encouraged to switch from the unemployment register to the sickness register. Mothers, caring for relatives or children, are being persuaded to de-register and stay at home. Benefit checks are being stepped up as a new tier of snooperdom — 850 "claimant advisers" — is being created within the Department of Employment.

If, as the Government has it, the problem is not unemployment but the unemployed, then the correct solution is not to take people out of unemployment, but to take them out of the unemployment register. New job statistics, rather than new jobs, require to be conjured up. In the last seven years, thousands may have been thrown on to the dole. In the

next year thousands are to be thrown off the dole, and in this new effort, the most menacing initiative of all is the new and exhaustive test for work availability — and therefore for registrability for unemployment benefit — that recalls the worst excesses of the means tests of the Thirties.

In the detailed new questionnaire for the newly unemployed, it will be insufficient simply to indicate availability for work, or even to list the efforts you have made to achieve work. Correct answers will have to be given to a series of questions about your personal circumstances and expectations.

For example you are asked, "How far are you able to travel to work (e.g. home town only, within daily travelling distance)". The question may sound simple but, according to the internal instructions you are not allowed to see, an answer of "home town only" may mean the withdrawal of your benefit. Any reluctance to get on your bike puts your benefit in danger. Only by answering that you will work anywhere is your benefit guaranteed.

Another question concerns the types of jobs you are able to do. According to the internal instructions to officials, a worker who is "clearly and substantially limited to certain type of work for health reasons", should have his benefit suspended. Mothers and especially single parents and have even more to fear. "Do you have any adults or children to care for during working hours", claimants are asked. They are then asked if they can make "immediate arrangements for care if you get a job". Another question refers to your wage expectations. Where the minimum wage you are seeking is, in the eyes of the Department, too exorbitant, benefit is in danger. No matter that no vacancies exist, that is not for discussion.

The message is clear. If you are willing to work for £60 a week in a hamburger stall a hundred miles from home, you are truly unemployed. If you are not then you are workshy and we are all aware of the consequences of that. You will not receive benefit. You will not even be allowed to contribute to the figures for unemployment.

What really matters to the Government is the massaging of the statistics and their pilot exercise on the unemployment questionnaire — an extra 5 per cent of the unemployed left the register — suggests that this will be a highly productive approach.

Gordon Brown is Labour MP for Dunfermline East.

New Statesmen
11 March 1988

Dependency culture: welfare for the wealthy

Each Budget since 1979 has enriched the already rich amid a rising tide of poverty.

GORDON BROWN describes the overgrown mass of tax loopholes, shelters and reliefs for the wealthy to which the Chancellor will add on Tuesday. On pp12-13 Jolyon Jenkins provides a do-it-yourself Budget kit, an exposition of the theory of incentives and a guide to the "other welfare state" of company perks

AS A NEW 27-bedroom hotel for the homeless flourishes in West London, it might seem that London's businessmen are beginning to take a long and sympathetic look at the problems of the capital's 30,000 without permanent residence. Has

business suddenly rediscovered charity? Has the conscience of the rich reawakened after a century of state provision?

No. There is a less momentous explanation: a few investors have spotted a tax dodge that allows them to make an astonishing double killing out of accommodation for the homeless.

The investors are doing exceptionally nicely because the taxpayer is coughing up for both the revenue and the capital investment involved. Almost all the income of the 27-room hotel and its sister hotel, the Townhouse, on the Cromwell Road, comes from board and lodging bills of up to £273 a week per room paid by local councils. The real shock is in the capital funding: £600,000 of the £1 million needed to buy and refurbish the Townhouse has come in tax concessions, with a handy windfall still to come when the building, which has already increased in value by £450,000, is sold off.

The key to this nice little earner is the Business Expansion Scheme, whereby a score of top-rate

taxpayers have been able to invest up to £40,000 each and set the sum against their tax bills, so that the government effectively contributes £24,000 for each in the form of lost tax revenue — on behalf of all of us, naturally.

The hotel scheme is a characteristic wonder of the Thatcher era: in effect a tax shelter that allows the rich to become richer by means of a partial and inefficient privatised response to the cut-back in housing and social services to the poor. As the scheme's prospectus makes clear, the present high demand for tax-funded bed and breakfast accommodation arises from government-imposed restrictions on local council housing investment. In other words, money that could house the poor instead of warehousing them is being pocketed by the very rich as tax relief.

That little dodge — which has mushroomed in the financing of private hospitals, health clinics, private nursing homes and now even private schools — has a top limit: only £40,000 of any individual's income in any one year can be shielded

Sad tale of redundancy

IT IS CURIOUS that only the poor can be made dependent. A poignant story in the *Financial Times* last month told the sad tale of the former chairman of Britoil, Sir Philip Shelbourne (right), who was made redundant by its sale to BP. His form of redundancy was to be made a consultant. More, he was given a car for life. And a chauffeur. He was given four centre court tickets for the Wimbledon tennis finals each year. He was given four seats every season at Covent Garden opera house. He was given £40,000 a year "in lieu of office and ancillary services". He was given travel and hotel expenses, and private health insurance. *And he was given £92 a day for lunch.*

We can perhaps glimpse this sad case of dependency, flitting wanly in the back of his Daimler between I.'Escargot and the Carlton Club, then shuffling miserably on to Covent Garden as the evening shadows lengthen.

John Lloyd



by the Business Expansion Scheme. For those who face even greater difficulties, the recommended choice is investment in Enterprise Zones, where tax-relief rewards for the very, very rich are virtually limitless. Acquire yourself a chunk of an Enterprise Zone and the tax inspector will more or less forget all about you.

Secret property

Land ownership in England is an unofficial (though still very secret) secret, but careful research in the Durham Land Registry has come up with some interesting facts about who owns the land in one local Enterprise Zone, at Middlesbrough.

Some very rich men have found the charms of Middlesbrough quite irresistible. The official explanation is that they have invested in one of Britain's most deprived areas: the truth is that they have found the kind of tax haven you used to have to go to the Dutch Antilles for. Clever little companies have sprouted simply to market such cosy, onshore schemes, and they are doing well. Limitless incomes can be set against tax in the Middlesbrough Enterprise Zone, and in all the others that have been designated in the north, and for the London rich with less of a sense of adventure, there's even one in the Isle of Dogs.

An official report in December put a figure of £150 million lost to the Exchequer on such schemes. That was the figure until 1986; it is now £270 million.

No one doubts that investment in the country's poorest areas is a high priority but no realist in government or outside it can contend that the £270 million frittered away on these tax dodges is money

well spent. Direct investment of such sums in local enterprise can be justified; chucking them at the already rich cannot. Yet in the same week as the report appeared the Chancellor announced an extension of these loopholes to benefit not just individual investors but unit trusts too. As a jubilant investment company official said at the time: "This dramatically opens up to all high-tax-paying investors a market which has only been accessible to the very rich."

Forests of money

If Enterprise zones are not to your taste, forestry offers equally attractive — and now well-publicised — tax breaks, with a string of reliefs for planting, maintaining, felling and selling trees that no one actually needs. There's even a £100 grant paid by the government for each acre you plant.

What's perhaps more worrying is that the Exchequer is now losing £35 million a year to pop stars, politicians and sports personalities for planting the wrong kind of trees in the wrong places (like the environmentally important Flow Country in Scotland) and for the wrong reasons.

Another use of tax perks is available in the form of Executive Share Options. These have allowed 50,000 income tax payers to avoid £100 million-worth of their potential responsibilities to the Exchequer each year for the last three years. The scheme showers windfalls on the already rich by allowing boardroom purchase, at prices fixed at an earlier day, of shares for sale later at substantial profit — free from income tax (see p13). All our best known directors, from Ralph Halpern (Burton) and Alan Sugar (Amstrad) downwards, are major beneficiaries. The leadership of newly priva-

tised companies doesn't do too badly either: British Telecom executives have share options worth £2.7 million — currently representing about £750,000 in profits.

And then there's Bed and Breakfasting. Nothing, it should be emphasised, to do with stale sheets, limp cornflakes, DHSS handouts or the West London hotel scheme. Bed and Breakfasting allows City institutions and wealthy individuals to create book losses by selling shares or unit trusts late one night and buying them back the next morning. Cost to less enterprising taxpayers? An estimated £900 million this year alone.

It's not as if the rich need the extra money. For the last eight years they have done very well indeed. The 400,000 at the very top who earn in excess of £80,000 and who now have shares worth more than £100,000 have under Mrs Thatcher doubled their wealth, giving them, on average, around £500,000 each.

The theory behind giving them more is the simplistic Tory one: that capital shall flourish, that industry and innovation thereby profit and enterprise be justly rewarded. The realities are both more mundane and more squalid. The rewards are for ingenuity in tax avoidance only. The economy derives no benefit from tax provisions so loosely, even whimsically, geared to the need for genuine investment. The only real beneficiaries are the already rich, who so far have shown no signs of becoming any more productive — only richer. □

Gordon Brown MP is Shadow Chief Secretary to the Treasury.

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Lawrence & Wishart
39 Museum Street, London WC1A 1LQ

FROM: PETER CURWEN
 DATE: 16 March 1988

~~MR TYRIE~~

cc Mr Pechford
 Mr Hutson

VARIOUS EMPLOYMENT AND UNEMPLOYMENT STATISTICS

You asked how the latest figures for unemployment, whole economy employment and manufacturing employment compared with 31 October 1986.

A Unemployment (UK, seasonally adjusted, excl. school leavers, thousands)

October 1986*	3,163.5
November 1986*	3,150.7
February 1988 ⁺	2,531.3
CHANGE: Oct 86-Feb 88:	- 632.2
Nov 86-Feb 88:	- 619.4

* October figure would have been 'current' on 31 October although November 'count date' closer to end October than October 'count date'

⁺ Released on Thursday 17 March.

B Whole economy employment (Employed Labour Force, GB, seasonally adjusted, thousands)

September 1986(Q3)	24,044
September 1987(Q3)	24,505
CHANGE: Sept 86-Sept 87:	+ 461

C Manufacturing employment (GB, thousands, seasonally adjusted, manufacturing employees in employment)

October 1986	5,098
January ⁺ 1988	5,035
CHANGE: Oct 86-Jan 88:	- 63

⁺ Released on Thursday 17 March.

Peter S. Curwen

PETER S CURWEN

FROM: P L PATTERSON

DATE: 16 March 1988

1. MR PICKFORD ✓
 2. CHANCELLOR (+1 for No 10)

cc Chief Secretary Mr Hibberd
 Financial Secretary Mr MacAuslan
 Paymaster General Mr Bush
 Economic Secretary Mr Dyer
 Sir P Middleton Mr Hudson
 Sir T Burns Mr O'Brien
 Mr Monck Mr Cropper
 Mr Scholar Mr Tyrie
 Mr Odling-Smee Mr Call
 Mr Sedgwick HB/001
 Mr R I G Allen

A more moderate fall in unemployment this month, so the fall over the last year is no longer a record. But still good news, as is no fall in manufacturing employment and no acceleration in earnings (despite yet higher overtime working). Spickh 16/3

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 17 MARCH

Summary Statistics (seasonally adjusted GB unless otherwise stated)

	Thousands	Level	Change on previous period	Change on previous year
<u>Unemployment (UK)</u>				
Total (excl. school leavers) February		2,531	-33	-535
Total (not seasonally adjusted) February: 'Headline Total'		2,665	-57	-560
<u>Vacancies (UK) February</u>		248	- 2	+41
<u>Employed labour force 1987Q3</u>		24,505	+75	+461
<u>Manufacturing employment January</u>		5,035	0	-30
			<u>Percentage change on previous year</u>	
<u>Index of average earnings, January</u>				
Whole economy, underlying (actual)			8½	(8.7)
Manufacturing, underlying (actual)			8½	(8.4)
Service industries, underlying (actual)			8½	(9.1)
<u>Wage and salary costs per unit of output</u>				
Whole economy, 1987Q3			3.8	
Manufacturing, 3 months to January			1.3	
<u>Output per head</u>				
Whole economy, 1987Q3			3.2	
Manufacturing, 3 months to January			6.9	

ASSESSMENT AND COMMENT

2. [NOT FOR USE: There may have been a slight upward effect on the unemployment count in February as some extra disabled claimants have signed on in advance of the change in social security regulations in April. This is apparently because DHSS have told them that when Income Support replaces Supplementary Allowance, they will no longer be exempt from the requirement to be available for work; they must therefore either obtain a medical certificate and claim sickness benefit or sign on as unemployed. The size of this effect cannot be quantified.

(letter from Mr Fowler behind)

3. DE's view is that there are signs that the rate of decline in unemployment is easing, especially amongst women. However, on the basis of one month's figures, it seems premature to conclude anything other than that the strong downward trend in unemployment is continuing. (It should be noted that the fall over the past year, in both seasonally adjusted and headline totals, is no longer a record, being slightly lower than the fall in the year to January.) The other labour market indicators add little to this assessment, with no change in January in manufacturing employment or in the increase in whole economy underlying earnings. There was a large number of settlements in January, although others were delayed until February. Whole economy settlements in January were $\frac{1}{2}$ per cent higher than a year earlier. There are some signs that settlements in manufacturing, up 1 per cent on January 1987, are starting to catch up with earlier growth in service sector settlements. The stock of vacancies fell slightly in February, the third consecutive monthly fall, but remain nearly 20 per cent higher than a year earlier. DE think that the number of new vacancies becoming available (inflows), which recovered in February to its highest level since the series began in 1980, may give a better indication of the buoyancy of the labour market.]

THE FIGURES IN DETAIL

Unemployment

4. Seasonally-adjusted adult unemployment (excluding school leavers) fell by a further 33,000 in February to 2.531 million (9.1 per cent of the working population). The fall over the last six months has averaged 49,000 a month.

5. The 'headline' total fell by 57,000 to 2.665 million, 9.6 per cent of the working population. There was a fall of 51,000 among adult claimants and 5,000 among school leavers.

6. The stock of vacancies at Jobcentres (seasonally adjusted) fell in February by 2,000 to 248,000, but remains 20 per cent higher than a year earlier.
7. Points of interest:
- (a) Seasonally adjusted total at lowest level for 6 years (since February 1982).
 - (b) Seasonally adjusted total has fallen for nineteen months in succession since July 1986, by 679,000 in total.
 - (c) Fallen by 535,000 over past year, slightly lower than twelve-month fall to January because of large fall in February 1987.
 - (d) Fall in 'headline' total of 560,000 compared with year ago, also slightly lower than last month's figure.
 - (e) School leaver unemployment (under 18s), at 57,000 in February, was 23,000 lower than a year ago, lowest February total since 1980, and more than halved since February 1983.
 - (f) Unemployment continues to fall in all regions. Over the past twelve months the unemployment rate has fallen most in the West Midlands, followed by the North West, the North and Wales. Over the past six months, the fall in the unemployment rate has been similar in all regions, including Scotland and Northern Ireland.
 - (g) UK unemployment rate fallen more in past year than in any other major industrialised country; also true of any OECD country. Latest figures (national definitions) show fall in UK rate of 2.0 percentage points over past year, compared with fall of 1.0 in US, fall of 0.1 in Japan and rise of 0.1 in Germany.
 - (h) Seasonal influences on the unadjusted headline total in March are normally substantially downward.

Employment

8. The only new employment figures this month are for the number of employees in manufacturing industries in January. There were also small revisions to the whole economy employed labour force figures, mainly affecting the 1986 figures. These were effectively released in the FSR on 15 March.

9. The number of employees in employment in manufacturing is estimated to have remained unchanged between December and January. Monthly figures are erratic, but in recent months there has been an appreciable slowdown, and possibly a levelling off, in the downward trend in the number of manufacturing jobs. In the six months to January manufacturing employment fell by an average of only 1,000 a month.

Other features

10. The provisional estimate of the underlying increase in whole economy average earnings in the year to January is unchanged from the December figure of $8\frac{1}{2}$ per cent. For both manufacturing and service industries, the underlying increase in the year to January is also $8\frac{1}{2}$ per cent. In manufacturing this is a $\frac{1}{4}$ percentage point rise since December and continues to be boosted by high levels of overtime working. In the service sector, the underlying increase is $\frac{1}{4}$ percentage point below the December figure which included the effect of end-year bonuses.

11. The level of overtime working in manufacturing again rose sharply in January, to 14.54 million hours a week. The January figure may be erratic, perhaps reflecting a smaller than usual decline in post-Christmas overtime working in industries where demand is high. Nevertheless the average of 13.6 million hours a week in 1987Q4 was the highest level since the start of the decade and well above the average level of 12.4 million hours in the first 9 months of 1987.

12. Output per head in manufacturing in the 3 months to January 1988 was 6.9 per cent higher than a year earlier, reflecting an increase in output of $6\frac{1}{2}$ per cent offset by a small fall in employment. Unit wage and salary costs rose by 1.3 per cent over the same period.

MANUFACTURING : Percentage increase on year earlier

	Average earnings	Output per head	Wages and salaries per unit of output
1987Q1	7.8	7.0	0.8
Q2	7.7	6.8	0.8
Q3	8.5	7.7	0.7
Q4	8.4	6.1	2.1
1988			
3 months to January	8.2	6.9	1.3

13. There are minor revisions this month to the figures for whole economy productivity and unit wage costs, reflecting the new employment data and revised GDP figures up to 1987Q3 (to be published by CSO on Friday 18 March).

Peter Patterson
PETER L PATTERSON



Caxton House Tothill Street London SW1 9NF

Telephone Direct Line 01-213..... 5803.....

Switchboard 01-213 3000

The Rt Hon John Moore MP
 Secretary of State for Social Services
 Richmond House
 79 Whitehall
 LONDON
 SW1A 2NS

CHIEF SECRETARY	
REC.	1 11 1988
ACTION	Mr McIntyre
	2 <u>Mr. G. G. G.</u>
	Mr Phillips Mr Mack
	Mr Brignier, Miss Pearson
	Mr Turnbull Mr MacArthur

Mr Gibson, Mr Call

10 March 1988

Dear John.

DISABLED BENEFIT CLAIMANTS

I am writing to you about a regulation change which could have adverse effects in terms of increasing the unemployment count and causing hardship to mentally and physically disadvantaged claimants. There is a distinct possibility of hard cases arising and attracting public and media attention.

As you know, Supplementary Allowance (SA) is at the moment generally payable to people who meet the conditions for Unemployment Benefit (UB) but whose needs are not met by their UB entitlement. However, some groups of claimants can get SA without being available for work. They are paid by DHSS order book and do not need to sign on. One such group is people who have little prospect of obtaining work due to a physical or mental disablement. These are known as "Regulation 6(e) cases", and my officials understand from yours that there are about 40,000 of them. When Income Support (IS) replaces SA in April, this group will no longer be exempt from the requirement to be available for work.

In discussions between our officials, the expectation of your Department was that the great majority of these people would not come our way. They would either claim sickness benefit or they would fall into one of the new exempt categories. We also expected that the 40,000 or so cases would be individually reviewed and if necessary seen by DHSS officials, and the situation explained to them. Regrettably, this did not happen. Your officials have written to them and told them that from April they must either get a medical certificate and claim sickness benefit or sign on at an Unemployment Benefit



Office (UBO). The result is that hundreds of claimants who until now have been paid by order book, some of them manifestly disabled, are beginning to come into UBOS to sign on. In addition, no attempt was made to encourage them to seek medical certificates or to assess whether they could retain their order book payments under the new regulations.

This is causing, and is likely to continue to cause, serious problems. Some individuals may be able to get medical certificates and therefore claim sickness benefit; but for many this could be difficult. In most cases they will not have had to seek one before despite their disability, and their GP may not see the need to issue one now.

If, as many are now doing, they appear in our offices, we are faced with a difficult situation. If they claim UB, their availability may be uncertain. Current legislation has allowed them to become used to living on benefit without looking for work, and they may find it difficult to demonstrate that they are active jobseekers. My staff will then be faced with an invidious choice. Either they interpret availability leniently, in which case these persons will go onto the unemployed register and probably stay there with the unemployment count being higher as a result; or they apply the availability test rigorously, in which case some claimants will lose their benefit entitlement altogether.

The impact on the individuals will of course be considerable. I cannot help feeling that we shall be rightly accused of poor administration and sending society's most vulnerable members on a wild goose chase from one department to another for their income.

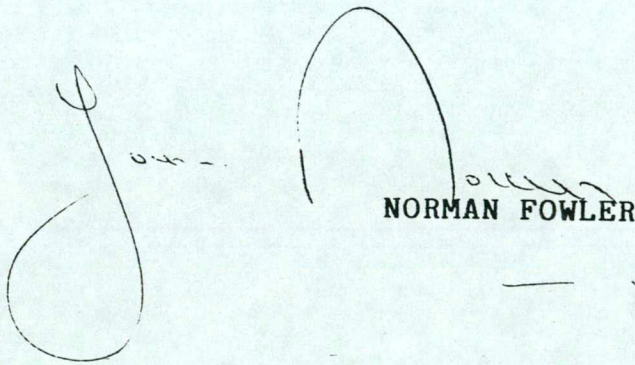
My officials have already had some helpful discussions with yours about this unfortunate predicament. Your officials have, I understand, agreed to maintain these claimants on order book payments beyond the original 11 April cut-off date while their correct status is sorted out. They have also offered to make home visits to those claimants who have not yet acted on the letter sent to them about the new regime.

However, I think we need something more. While I see the advantage of the new regulations in respect of future claimants, I should like to see all existing Regulation 6(e) cases automatically deemed to fall into one of the new categories exempted from the availability requirement. I realise that this may appear to be negating the regulation change, but it seems to me that many of the claimants formerly exempted as having little prospect of employment would by now have moved into one of the new exempt categories, such as



incapable of work, either because their disability had worsened or because they had entirely lost touch with the labour market. It is regrettable that no such transitional provision was written into the IS regulations originally, but I believe it is the only sure way to protect these unfortunate claimants and indeed our own reputation.

I am copying this to John Major in view of his co-ordination role.


NORMAN FOWLER

COVERING PERSONAL AND CONFIDENTIAL



Caxton House Tothill Street London SW1H 9NF

5803

Telephone Direct Line 01-213

Switchboard 01-213 3000

Paul Gray Esq
10 Downing Street
LONDON
SW1A 2AA

16 March 1988

Dear Paul

LABOUR MARKET STATISTICS

... I enclose the unit wage and productivity costs to January which will be issued on Thursday. These are of course personal and confidential until 11.30 on 17 March and confidential thereafter.

I am copying this to **Allex Allan (Treasury)**, Sir Peter Middleton (Treasury), Mr Hibbert (CSO), John Footman (Bank of England), Alison Brimelow (DTI), Sir Brian Hayes (DTI), and Peter Stredder (No 10 Policy Unit).

Sincerely

Severny Evans

for

ANGELA WILKINS
Private Secretary

COVERING PERSONAL AND CONFIDENTIAL

COVERING PERSONAL AND CONFIDENTIAL

LABOUR MARKET STATISTICS PRESS NOTICE

NOTES FOR THE PRIME MINISTER

UNIT WAGE AND SALARY COSTS AND PRODUCTIVITY

I enclose revised pages for unit wage and salary costs and productivity. The revised figures for manufacturing industry are based on the output figures released by the CSO yesterday, and the revised figures for the whole economy are based on the GDP(O) figures to be released by the CSO on Friday.

These figures are personal and confidential until 11.30 am on Thursday 17 March 1988.

M J JANES
STATISTICS A1
DEPARTMENT OF EMPLOYMENT

UNIT WAGE AND SALARY COSTS

CONFIDENTIAL UNTIL 17 MAR 1988
THEREAFTER UNCLASSIFIED

In the three months ending January 1988, wages and salaries per unit of output in manufacturing industries were 1.3 per cent above the corresponding period a year earlier. This increase was below the rise in average earnings in manufacturing (see Table 10) as there was a rise of nearly 7 per cent in productivity over this period (see Table 13).

In the third quarter of 1987, wages and salaries per unit of output in the whole economy were 3.8 per cent above the corresponding period of 1986. This increase was below the rise in average earnings in the whole economy as there was a rise of nearly 3¼ per cent in productivity over this period.

Recent figures are:

TABLE 11: WAGES AND SALARIES PER UNIT OF OUTPUT

	Manufacturing		Whole Economy	
	Index 1980 = 100	Percentage increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985 Q3	125.8	6.5	132.9	6.0
Q4	128.7	6.2	134.3	4.4
1986 Q1	131.5	8.7	136.8	6.4
Q2	130.9	6.9	138.3	6.8
Q3	130.4	3.7	139.2	4.7
Q4	130.5	1.4	141.2	5.1
1987 Q1	132.5	0.8	142.3	4.0
Q2	132.0	0.8	144.3	4.3
Q3	131.3	0.7	144.5	3.8
Q4	133.2	2.1	..	..
1987 Sept	132.3	1.1	..	..
Oct	132.8	2.3	..	..
Nov	132.4	1.8	..	..
Dec	134.4	2.1		
1988 Jan	134.2	-0.1		
<u>3 months ending</u>				
1987 Sept	131.3	0.7	..	..
Oct	131.5	0.8	..	..
Nov	132.5	1.8	..	..
Dec	133.2	2.1		
1988 Jan	133.7	1.3		

CONFIDENTIAL UNTIL 17 MAR 1988
THEREAFTER UNCLASSIFIED

17 MAR 1988

PRODUCTIVITY

Manufacturing output per head in the three months to January was 1.0 per cent higher than in the three months ending October and 6.9 per cent higher than in the same period a year earlier.

Output per head in the whole economy in the third quarter of 1987 was 1.5 per cent above the previous quarter and 3.2 per cent higher than in the third quarter of 1986.

Recent figures are:

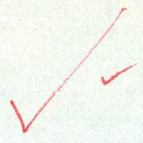
TABLE 13: OUTPUT PER HEAD

seasonally adjusted, U.K.

		Manufacturing		Whole Economy	
		Index 1980 = 100	Percentage Increase on a year earlier	Index 1980 = 100	Percentage increase on a year earlier
1985	Q3	130.4	2.4	114.2	2.2
	Q4	130.1	2.2	114.7	2.2
1986	Q1	129.5	-0.7	115.2	1.5
	Q2	132.3	0.5	116.6	1.7
	Q3	134.8	3.4	117.7	3.1
	Q4	138.5	6.5	118.3	3.1
1987	Q1	138.6	7.0	118.8	3.1
	Q2	141.3	6.8	119.7	2.7
	Q3	145.2	7.7	121.5	3.2
	Q4	147.0	6.1	..	..
1987	Sept	145.4	7.1	..	..
	Oct	146.4	6.4	..	..
	Nov	147.0	6.0	..	..
	Dec	147.6	6.1		
1988	Jan	147.8	8.6		
<u>3 months ending</u>					
1987	Sept	145.2	7.7	..	..
	Oct	146.1	7.6	..	..
	Nov	146.3	6.5	..	..
	Dec	147.0	6.1		
1988	Jan	147.5	6.9		

17 MAR 1988

temp



A1

CONFIDENTIAL

Labour Market Statistics

Summary

Unemployment fell by 33,400 to 2.531 million, its lowest level for six years. However, there are signs that the rate of decline has been easing. This month other labour market indicators add little to our assessment.

The stock of vacancies fell slightly but is still relatively high. The number of employees in manufacturing industry appears to have levelled off over the six months to January (first figures for total employment in the fourth quarter will be available next month.) The increase in the index of average earnings was unchanged in January.

Unemployment

UK unemployment (seasonally adjusted claimants, excluding school leavers) fell further, by 33,400 between January and February, to 2.531 million, the lowest for 6 years (on a consistent basis). The unemployment rate fell to 9.1 per cent. The series has now fallen for 19 consecutive months, bringing the total fall since July 1986 to 679,000. Key figures and comparisons are attached separately.

Unemployment now seems to be falling less sharply, particularly among women. The decline in the seasonally adjusted series has average 49,000 per month over the past six months, but within this period there was a fall of 40,000 per month over the latest three months compared with 58,000 over the previous three months to November. Over the last three months unemployment fell by nearly 7,000 per month among women, compared with nearly 20,000 in the previous three months to November. The corresponding figures for men were 33,000 and nearly 39,000 respectively.

The various administrative measures - Restart, availability testing and claimant advisers - are probably no longer contributing to the monthly reductions in the count, now that they are well established. This assessment is consistent with the different movements in male and female unemployment; these administrative measures have had a disproportionate effect of women. The effect on the count of employment and training measures is hardly changing.

There may also have been a slight upward effect on the count between January and February because some extra disabled claimants have been signing on as unemployed when they were previously obtaining Supplementary Allowance directly from DHSS without having to be available for work. Many of these claimants have been told that when Income Support replaces Supplementary Allowance in April, according to the new regulations, they will no longer be exempt from the requirement to be available for work and that they must either get a medical certificate and claim sickness benefit or sign on as available for work. Some will already have begun to sign on at an Unemployment Benefit Office in anticipation of the change in April. The effect on the count cannot be quantified, but the available evidence from examining the February figures suggests that the effect has so far been small. ^{For example,} there has been no unexpected increase in the inflows into unemployment.

Regional comparisons

Unemployment continues to fall in all regions. Over the past 12 months, the unemployment rate has fallen most in the West Midlands followed by the North West, the North and Wales, though the falls over this period in other regions such as East Anglia, Yorkshire and Humberside and the South West are now not far behind. The smallest falls in the rates over the past year were in Northern Ireland and in Greater London. Over a more recent period - the past six months - the unemployment rate has been falling fastest in the West Midlands and most slowly in Greater London.

Headline total

The UK 'headline' claimant total (unadjusted including school leavers) fell by nearly 57,000 to 2.665 million in February, 9.6 per cent. This was 560,000 lower than a year ago. There was a fall of over 51,000 among adults and a fall of 5,000 among school leavers. The school leaver total, at 57,000, was some 23,000 or 28 per cent lower than a year ago.

March headline total

Seasonal influences on the unemployment count between February and March are substantially downward, so given a continuing downward trend, a sharp fall in the headline total is likely.

Employment

The number of employees in employment in manufacturing industry in Great Britain is estimated to have remained constant between December and January. While the monthly figures can be erratic the rate of decline in manufacturing employment has clearly slowed and the trend may be levelling out.

Figures for employees in the rest of the economy and the employed labour force (employees in employment, the self employed and HM Forces) in Great Britain have been slightly revised but the pattern shown by the estimates is unchanged. The employed labour force is estimated to have increased by 461,000 in the year ending September 1987 and by 1,508,000 between March 1983, when the upward trend first began, and September 1987. The third quarter of 1987 was the eighteenth successive quarter in which the employed labour force increased. The rate of increase which had been strengthening between March 1986 and June 1987 slowed in the September quarter; the increase of 75,000 in the September quarter of 1987 compares with an increase of 155,000 in the June quarter.

Estimated overtime working by operatives in manufacturing industries increased further, to 14½ million hours per week, in January. As the monthly figures can be erratic one will have to wait for the estimates for February and perhaps March before judging whether this represents a further step up in the level of overtime or is merely an erratic fluctuation. Hours lost through short-time working in manufacturing industries remain very low, ¼ million hours per week, in January.

Vacancies

There was a further small fall in the stock of unfilled vacancies at jobcentres (UK, seasonally adjusted and excluding Community Programme vacancies) of 1,600 to 247,900 in February. They remained at a relatively high level, being 20% higher than a year ago, but the increase is still likely to be exaggerated because of a tendency for outflows to be understated as jobcentres have been less active in following up placings.

Between January and February there was a rise in both inflows of reported vacancies and outflows. Compared with a year ago, inflows and outflows were both up by 14%. The increase of 14% in the inflows is probably a better guide than the stocks to the growth in vacancies over the period. Recorded placings were only 6% higher than a year ago.

Personal and Confidential until 11.30 17.3.88
Thereafter confidential.

Earnings

The provisional estimate of the underlying increase for the whole economy in January is unchanged from December at $8\frac{1}{2}$ per cent. The provisional estimate for manufacturing is up by $\frac{1}{4}$ per cent to $8\frac{1}{2}$ per cent but the estimate for service industries has fallen by a $\frac{1}{4}$ per cent to $8\frac{1}{2}$ per cent also.

The increase in manufacturing industries reflects the effect of the increased levels of overtime on a year ago.

Next labour market figures

The next labour market briefing will be issued on Tuesday 12 April in advance of the press release on Friday 15th April. It will contain unemployment figures for 10th March, employed labour force for the fourth quarter 1987, manufacturing employment and average earnings for February and vacancies for 4th March.

Personal and Confidential until 11.30 17.3.88
Thereafter confidential.

EB
Lab mkt

FROM: **PETER CURWEN**
 DATE: 16 March 1988

MR TYRIE

cc Mr Pechford
~~Mr Hudson~~

VARIOUS EMPLOYMENT AND UNEMPLOYMENT STATISTICS

You asked how the latest figures for unemployment, whole economy employment and manufacturing employment compared with 31 October 1986.

A Unemployment (UK, seasonally adjusted, excl. school leavers, thousands)

October 1986*	3,163.5
November 1986*	3,150.7
February 1988 ⁺	2,531.3
CHANGE: Oct 86-Feb 88:	- 632.2
Nov 86-Feb 88:	- 619.4

* October figure would have been 'current' on 31 October although November 'count date' closer to end October than October 'count date'

+ Released on Thursday 17 March.

B Whole economy employment (Employed Labour Force, GB, seasonally adjusted, thousands)

September 1986(Q3)	24,044
September 1987(Q3)	24,505
CHANGE: Sept 86-Sept 87:	+ 461

C Manufacturing employment (GB, thousands, seasonally adjusted, manufacturing employees in employment)

October 1986	5,098
January ⁺ 1988	5,035
CHANGE: Oct 86-Jan 88:	- 63

+ Released on Thursday 17 March.

Peter S. Curwen

PETER S CURWEN



10 DOWNING STREET
LONDON SW1A 2AA

SECRETARY	
REC.	18 MAR 1988
ACTUAL COPIES TO	Mr McIntyre
	Cx, Mr Brisson, Mr Phillip
	Mr Haulton, Miss Pearson
	Mr Turnbull, Mr Gibson
	Mr Cull

From the Private Secretary

17 March 1988

Ch / good stuff!

Dear Deborah,

mp mpr 22/3 ✓✓

EMPLOYMENT TRAP OF HOUSING POLICIES

Thank you for your letter of 4 March which the Prime Minister has seen. She has also now had an opportunity to consider all the further exchanges following my letter to Roger Bright of 22 February.

The Prime Minister considers the mechanics for carrying forward the further work by officials would best be handled through the inter-Departmental group already set up under DHSS chairmanship, and she would wish the Policy Unit to be involved in its further work.

The Prime Minister does not wish to suggest precise terms of reference for the group but does not think it appropriate for the remit to extend to a general consideration of options for alleviating the unemployment and poverty traps. The work should be more narrowly focused along the lines suggested by the Secretary of State for Social Services and the Chief Secretary.

She hopes that the work could focus mainly on options which do not involve increased expenditure or numbers of housing benefit recipients; attention might also be given in appraising the options to net income after housing costs as well as housing costs as a percentage of net income.

The Prime Minister also feels that the conclusions of the work by officials should be fed into the public expenditure survey in the normal way, with the appropriate Secretaries of State taking responsibility for their expenditure programmes.

I am copying this letter to Jill Rutter (Treasury), Robin Weatherson (Scottish Office), Jon Shortridge (Welsh Office), Alison Brimelow (Department of Trade and Industry), Nick Wilson (Department of Employment), and Trevor Woolley (Cabinet Office).

Yours,
Paul.

PAUL GRAY

Miss Deborah Lamb,
Department of the Environment.



FROM: MOIRA WALLACE
DATE: 17 March 1988

pp

MR PATTERSON

cc Mr Pickford

COMBINED RELEASE OF LABOUR MARKET STATISTICS ON 17 MARCH

The Chancellor has seen and was grateful for your minute of 16 March.

Mjpw

MOIRA WALLACE



MINISTRY OF DEFENCE WHITEHALL LONDON SW1A 2HB

TELEPHONE 01-218 9000

DIRECT DIALLING 01-218 242

MO 5/29L

17th March 1988

H/EXCHEQUER	
REC.	21 MAR 1988 21/3
ATTN	CST
TO	

Dear Norman,

YTS IN THE CIVIL SERVICE

Thank you for your letter of 8th March which you sent jointly with Richard Luce about the wider introduction of YTS.

As your letter recognises, the Ministry of Defence to date has a good record on YTS. At present we have 684 YTS trainees in training in our schemes, both in the United Kingdom and abroad, as well as 778 Employed Status (YTS) apprentices. As you know, the MOD also runs the Armed Services Youth Training Scheme. At the end of last year 482 entrants were undergoing training and nearly 4000 have been involved since the scheme started in 1983. (Incidentally, some 64% of those leaving have transferred to regular engagements.)

Since I wrote to Richard Luce on 30th September last year, I am pleased to say that we have secured full Approved Training Organisation (ATO) status from the MSC (the first and only Government department so far to have done so, I believe). I have to say that our progress on the non-industrial side in the United Kingdom has been less impressive. But we are still pressing on with the introduction of three trial schemes in high unemployment areas

The Rt Hon Norman Fowler MP



and one in central London for which we are on the point of recruitment. We have recently advised the Trade Unions of our intentions, but have not so far had a response from them.

My Department is committed to YTS and I fully recognise the wider benefits of the scheme. But, while asking my officials to press ahead with the pilot schemes, I have to take account of the considerable resources needed to set up and run them, and manpower and finance will constrain the extent and pace at which we can go forward. I am also mindful of the demands your recent White Paper on Training for Employment may make on us.

I am sending copies of this letter to the Prime Minister, other members of Cabinet, Richard Luce and to Sir Robin Butler.

Yours ever,
George

George Younger

*including minute from EOG
papers (on YTS in Ch's depts)*

FROM: J MACAUSLAN

m.

DATE: 18 March 1988

CHIEF SECRETARY

*BF 22/3
23/3
pmp*

- cc: Chancellor
- Sir P Middleton
- Mr Anson
- Dame A Mueller
- Mr Monck
- Mr H Phillips
- Mr C D Butler
- Mr Burgner
- Mr C W Kelly
- Mr Luce
- Mr Turnbull
- Mr Burr
- Mr McIntyre
- Mr Saunders
- Ms Sinclair
- Mr Truman
- Mr Finnegan
- Mr Kalen
- Mr Call

YTS IN THE PUBLIC SECTOR

1. Norman Fowler and Richard Luce signed a joint letter of 8 March 1988 to the Chancellor copied to all Ministerial Heads of Department. They urged colleagues to pursue vigorously the wider introduction of YTS in departments, and to let them know how YTS is progressing in Departments. This submission recommends that you write to record Treasury views.

2. The Government should not preach the merits of YTS without making perceptible efforts to introduce it where possible into the Civil Service. That might undermine the Government's credibility over the Scheme. And by taking on as YTS trainees people who might otherwise have been unemployed, departments can also help to meet the Government's guarantee of a YTS place for all unemployed school leavers.

3. On the other hand, YTS has a limited budget, and we hope to make savings there in PES 1988. It does not help if large amounts of YTS grant are paid to other Government Departments to finance the training they should anyway be doing. Nor is it necessary: the YTS money is meant to be a bribe to private sector employers to improve their training; but we do not need to bribe Government departments if we think training for their staff should be improved. YTS subsidies within Government confuse expenditure control and accountability, especially since the costs of training staff on YTS must be absorbed within existing gross running costs ceilings, so that subsidies from the MSC could only be used to finance other programme expenditure. There are also real difficulties in reconciling YTS with the needs of the civil service; and union opposition^{continues} to show itself in protest strikes. Finally, we would not want to take too many school leavers out of a labour market which according to Mr Fowler's recent White Paper will be becoming increasingly tight.

4. This seems to point to continuing to introduce YTS in the civil service, but ensuring that this does not absorb more than small amounts of the YTS budget. The current number of places (about 2,000) costs under £5m a year out of a total budget of over £1bn. We could afford to see departmental uptake multiplied 3 or 4 times before we risk making significant inroads into the savings you might otherwise be able to claw back.

5. I therefore recommend that you write back to endorse the objective of spreading YTS further in the civil service, but to express some caution. This is in line with previous agreements between Ministers as to how YTS should be handled in the civil service (see Mr Luce's letter of 6 August 1987).

6. The draft reply reports experience in introducing YTS in the Chancellor's Departments.

7. This submission has been agreed with Pay, IRD, RC, PMR, and EOG.

JM

J MACAUSLAN

DRAFT LETTER FROM CHIEF SECRETARY TO SECRETARY OF STATE FOR EMPLOYMENT

YTS IN THE PUBLIC SECTOR

1. Thank you for the letter which you and Richard Luce sent to Nigel Lawson about YTS in the civil service.
2. I agree that the Government should show the CPSA that they cannot use the strike weapon to defeat the Government on the issue of YTS in the civil service. But I am pleased to see that the development of 2 year YTS in the rest of the economy has not been handicapped by the difficulties in the civil service.
3. Some of those difficulties are of course only too real. I think there is considerable force in the point (made by Peter Brooke in his letter of 4 September to Richard Luce) that: "when considering where they might seek first to introduce YTS, Departments should think carefully about where they have the best prospects. Initially some areas may permit easier progress than others, and the aim should be to build on that".
4. The development of schemes in the Chancellor's departments has required some considerable management effort, and there have of course been difficulties with the unions. But you will be pleased to note that we have introduced an 18 place scheme in the Revenue at Telford, a 6 place scheme in the Royal Mint, and some places within the Treasury. We are continuing to look at areas where small scale schemes might be feasible and will keep you in touch with our progress.
5. In mounting these schemes we have paid particular attention to the guidelines set out in Richard's letter of 6 August 1987 and the attachment to that letter, including the requirement that the costs of training employees under YTS be absorbed within existing gross running cost limits. (It is of course essential to keep a firm grip on running costs). A concern underlying those guidelines was that the finite YTS budget should have the maximum impact in improving training for young people throughout the economy. Within Government, Departments should decide on the appropriate investment in training their

young recruits, and should not need public expenditure transfers from the MSC; such transfers, if on a substantial scale, would confuse accountability and allocation of resources, and reduce the sums available for encouraging improvements in training in the rest of the economy - where we cannot so easily influence training levels without the subsidy.

6. This concern does not, however, apply with the same force to the use by Departments of YTS as a way of providing training for young people who would otherwise have remained unemployed, and for whom other employer-based YTS provision cannot be found, for instance in inner cities. But in setting up such YTS schemes we must have an eye on the future in which, as your recent White Paper, "Training for Employment", set out, the labour market for young people is likely to become increasingly tight; the civil service must not exacerbate this.

7. For all these reasons, we have brought forward new schemes within the Chancellor's Departments with vigour, but on a small scale. As Richard said in his letter of last August, if any scheme were to be significantly larger than the DE scheme, the Treasury should be consulted in advance.

8. I am copying this letter to Richard Luce, and to all Ministerial heads of Department, to the Prime Minister, and to Sir Robin Butler.

[JM]

CONFIDENTIAL



cc:
 Chancellor
 Sir Peter Middleton
 Mr Anson
 Dame Anne Mueller
 Mr Monck
 Mr H Phillips
 Mr C D Butler
 Mr Burgner
 Mr C W Kelly
 Mr Luce
 Mr Turnbull
 Mr Burr
 Mr McIntyre
 Mr MacAuslan
 Mr Saunders
 Ms Sinclair
 Mr Truman
 Mr Finnegan
 Mr Kalen
 Mr Call

Treasury Chambers, Parliament Street, SW11

The Rt Hon Norman Fowler MP
 Secretary of State for Employment
 Department of Employment
 Caxton House
 Tothill Street
 London
 SW1H 9NF

21st March 1988

Dear Secretary of State,

YTS IN THE PUBLIC SECTOR

Thank you for the letter which you and Richard Luce sent to Nigel Lawson about YTS in the civil service.

I agree that the Government should show the CPSA that they cannot use the strike weapon to defeat the Government on the issue of YTS in the civil service. But I am pleased to see that the development of 2 year YTS in the rest of the economy has not been handicapped by the difficulties in the civil service.

Some of those difficulties are of course only too real. I think there is considerable force in the point (made by Peter Brooke in his letter of 4 September to Richard Luce) that: "when considering where they might seek first to introduce YTS, Departments should think carefully about where they have the best prospects. Initially some areas may permit easier progress than others, and the aim should be to build on that".

The development of schemes in the Chancellor's departments has required some considerable management effort, and there have of course been difficulties with the unions. But you will be pleased to note that we have introduced an 18 place scheme in the Revenue at Telford, a 6 place scheme in the Royal Mint, and some places within the Treasury. We are continuing to look at areas where small scale schemes might be feasible and will keep you in touch with our progress.

CONFIDENTIAL

In mounting these schemes we have paid particular attention to the guidelines set out in Richard's letter of 6 August 1987 and the attachment to that letter, including the requirement that the costs of training employees under YTS be absorbed within existing gross running cost limits. (It is of course essential to keep a firm grip on running costs). A concern underlying those guidelines was that the finite YTS budget should have the maximum impact in improving training for young people throughout the economy. Within Government, Departments should decide on the appropriate investment in training their young recruits, and should not need public expenditure transfers from the MSC; such transfers, if on a substantial scale, would confuse accountability and allocation of resources, and reduce the sums available for encouraging improvements in training in the rest of the economy - where we cannot so easily influence training levels without the subsidy.

This concern does not, however, apply with the same force to the use by Department of YTS as a way of providing training for young people who would otherwise have remained unemployed, and for whom other employer-based YTS provision cannot be found, for instance in inner cities. But in setting up such YTS schemes we must have an eye on the future in which, as your recent White paper, "Training for Employment", set out, the labour market for young people is likely to become increasingly tight; the civil service must not exacerbate this.

For all these reasons, we have brought forward new schemes within the Chancellor's Departments with vigour, but on a small scale. As Richard said in his letter of last August, if any scheme were to be significantly larger than the DE scheme, the Treasury should be consulted in advance.

I am copying this letter to Richard Luce, and to all Ministerial heads of Department, to the Prime Minister, and to Sir Robin Butler.

Yours sincerely



ff JOHN MAJOR

(Approved by the Chief Secretary
and signed in his absence)



the department for Enterprise

CONFIDENTIAL

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

Deborah Lamb
Private Secretary to the Secretary
of State for the Environment
Department of the Environment
2 Marsham Street
LONDON
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Department of
Trade and Industry

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CH/EXCHEQUER	
REC.	25 MAR 1988
ACTION	CST
COPIES TO	

Direct line 215 5422
Our ref PS4AKC
Your ref
Date 24 March 1988

Dear Deborah

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

Thank you for sending us a copy of your letter of 4 March to Paul Gray about the planned review by officials of options for alleviating the unemployment/poverty trap. We have also seen the letters dated 8 and 9 March from Jill Rutter and Rod Clark respectively.

This is a subject in which my Secretary of State and the Chancellor of the Duchy of Lancaster both take a close personal interest. The Secretary of State has been concerned for some time about the extent to which the UK's tax, national insurance and benefit systems may act as a disincentive to employment and growth - to the detriment of the economy generally.

My Secretary of State considers that this is an area which needs to be looked at in its entirety and therefore supports your Secretary of State's proposals for a Working Group of officials with the wider remit described in your letter of 4 March. He would wish this Department to be represented on any such Group.

I am copying this letter to Paul Gray, Alex Allan (HMT), Geoffrey Podger (DHSS), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Nick Wilson (Employment) and Trevor Woolley (Cabinet Office).

Yours

Jeremy Godfrey

JEREMY GODFREY
Private Secretary





mp.

DEPARTMENT OF HEALTH AND SOCIAL SECURITY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

The Rt Hon Norman Fowler MP
Secretary of State for Employment
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

JS March 1988

CH/EXCHEQUER	
REC.	28 MAR 1988 <i>213</i>
ACTION	<i>CST</i>
COPIES TO	

Dear Norman,

YTS IN THE CIVIL SERVICE

Thank you for your letter of 8 March asking for progress reports in the planning and implementation of Youth Training Schemes.

As your letter says we planned to start an 80 place scheme in April this year, doubling to 160 places next year. In close consultation with the Manpower Services Commission we produced a training scheme for consideration by the Youth Training Board at their meeting on 10 March. Officials had discussed it fully with our Trade Union Side and the Trade Unions were advised that any comments they had would need to be received in good time for consideration by the YTB at its meeting in March.

The MSC did not receive the Trade Union comments until 9 March, the day before the YTB was due to consider our proposal. The YTB decided to defer its decision so that the Department could respond in writing to the Union's comments and give the TUC representative on the Board an opportunity to consult with the Unions concerned.

We are disappointed at this setback in our plans, having put a great deal of effort into setting up the scheme and selecting and appointed good staff to manage it. I trust therefore that there will be no further delay when the YTB consider our proposals again at their April meeting. It seems to me that the MSC's procedures for considering Management's training proposals should require Trade Unions to lodge their comments in good time if they are to be considered by the YTB.

I am copying this letter to the Prime Minister, other members of Cabinet, Richard Luce and Sir Robin Butler.

John Moore

JOHN MOORE

CONFIDENTIAL



mp

DEPARTMENT OF HEALTH AND SOCIAL SECURITY CHIEF SECRETARY

Richmond House, 79 Whitehall, London SW1A 2NS

Telephone 01-210 3000

From the Secretary of State for Social Services

REC.	28 MAR 1988
ACTION	<i>Mr McIntyre,</i>
COPIES TO	<i>Mr Angus,</i>
	<i>Mr Phillips</i>
	<i>Miss Pearson,</i>
	<i>Mr Turnbull</i>

Deborah Lamb
 Private Secretary to
 The Secretary of State for
 the Environment
 Department of the Environment
 2 Marsham Street
 LONDON
 SW1P 3EB

25 March 1988

*Mr MacAuslan
 Mr Call*

Dear Deborah

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

Thank you for copying to Geoffrey Podger your letter to Paul Gray of 23 March.

I can confirm that the DHSS interdepartmental official group should be able to consider the options according to the timetable you propose.

I am copying this letter to Paul Gray (Number 10), Jill Rutter (Treasury), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Alison Brimelow (DTI), Nick Wilson (Employment) and Trevor Woolley in Sir Robin Butler's Office.

Yours sincerely

Rod Clark

ROD CLARK
 Private Secretary



mp

2 MARSHAM STREET
LONDON SW1P 3EB
01-212 3434

My ref:

Your ref:

The Rt. Hon Norman Fowler MP
Secretary of State
Department of Employment
Caxton House
Tothill Street
LONDON
SW1H 9NF

CH/EXCHEQUER	
REC.	28 MAR 1988 <i>28/3</i>
ACTION	CST
COPIES TO	

25 March 1988

Dear Norman

YTS IN THE CIVIL SERVICE

Paul Channon and I have been considering your letter of 8 March about the wider introduction of YTS into departments. As the staff in DTp, DOE and the PSA are "common citizens", I am, with Paul Channon's agreement, responding for both of us.

Our aim remains, as I said in my letter of 3 November, to get a Scheme going, by September. To that end, our officials have been investigating, with the MSC, the places in our Regions where a Scheme might be established. Work is also in progress on drafting the YTS Training Proposal and there have been exploratory talks with the trades unions.

The MSC's planning for YTS for the current year is, of course, well-advanced. Our approaches to their Area Offices suggest that it might be difficult, at this stage, for the MSC to accommodate our proposals as well, to the extent that we would wish. It also appears that MSC have already been very successful in matching numbers of YTS places to the number of interested school-leavers. This is especially true of Clerical Schemes such as the one we are developing.

As you say in your letter, "non-employee Schemes", enable us to reach out to young people in inner city communities who do not meet the entrance standards for permanent jobs in the Civil Service. However, I understand that MSC's present policy is to encourage employee Schemes because they are more attractive to young people than the placements of only one or two years under a non-employee Scheme. We may, therefore, need to reconsider which type of Scheme to offer.

My officials have had an exploratory meeting with the trades unions and found them to be not totally opposed to the idea of a YTS.

CH/EXCHEQUER	
REC.	25 MAR 1988
ACTION	
COPIES TO	



PRIME MINISTER

INDUSTRIAL DISPUTES

We discussed three industrial disputes in Cabinet yesterday. There have been significant developments in two of them.

FERRIES

The High Court have issued two rulings. One restrains the NUS from implementing its ballot on national industrial action; the other holds the NUS to be in contempt of Court for failing to abide by an order granted during the earlier dispute over the Isle of Man Ferries. This second ruling which includes sequestration of the union's assets is enforceable only if the NUS seek to call a national strike within 28 days.

These are both welcome judgements demonstrating the significance of our trade union legislation. They will almost certainly encourage the NUS to seek a negotiated settlement of the dispute at Dover. The talks at ACAS had been adjourned earlier until ACAS judge it worth resuming them. When that will be depends on the attitude of both the NUS and P&O (who have not moved from their demand for savings totalling £6 million a year by January 1989.)

JAGUAR

About 4,000 manual workers at Jaguar's Browns Lane factory in Coventry have voted by 2,410 to 1,312 for strike action from 6 April.

The dispute is over Jaguar's attempt to accelerate progress towards higher productivity to match its main competitors. The unions claim that the additional money available from the existing bonus scheme is insufficient compensation for these improvements. They want more money and more recruitment.



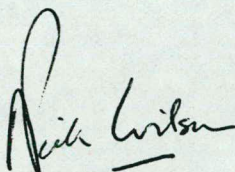
We understand ACAS are in touch with the dispute. A further meeting between the Company and the unions is expected next week.

Jaguar are optimistic that the differences between the two sides can be resolved fairly quickly. Their two other plants, at Castle Bromwich and Radford, have already achieved their targets.

LAND ROVER

As David Young has already reported the result of a secret ballot on what is virtually an identical offer made before the start of the strike is expected over the weekend.

I am copying this to the Chancellor of the Exchequer, the Secretaries of State for Trade and Industry and for Transport, and to Sir Robin Butler.

for 
N F

(Approved by the Secretary of State
and signed in his absence)

25 March 1988



EXCHEQUER	
REC.	28 MAR 1988 28/3
ACTION	CST
COPIES TO	

MP ✓

PRIME MINISTER

INDUSTRIAL DISPUTES

There have been further noteworthy developments over the weekend.

FERRIES

The National Union of Seamen have called off their strike ballot after Sealink were successful today in obtaining a High Court injunction against them. This follows the similar ruling granted to P&O by the High Court last Friday. I have not yet seen the actual terms of the judgment but reports suggest the judge has said the union must not in future try to induce its members to take any unlawful action in breach of their contracts of employment.

This should further reinforce the pressure on the NUS to seek a negotiated settlement at Dover though the timing of that remains uncertain.

JAGUAR

The company are meeting the unions today and are still confident that they can resolve the dispute satisfactorily over the next few days at no extra cost.

LAND ROVER

The workforce has voted by 4,332 to 1,158 to end the 5 week strike at the Solihull plant and accept the company's two-year pay deal at no extra cost. The plant is back at work today.



BENEFIT OFFICES AND JOBCENTRES

A strike in some London benefit offices and DHSS offices is also about to end. This dispute has been running since the beginning of this year over the issue of staffing levels in London local offices and the right of management to move staff from one office to another. Management have remained firm throughout and benefit payments have been maintained by adopting contingency measures.

The CPSA, recognising that we were not going to shift our position, balloted for an all out-strike without pay - at present the 400 or so strikers have received from the CPSA 50 per cent of gross earnings. The ballot formula is that normally adopted by the CPSA when they realise it is pointless to continue a dispute. The ballot result showed 920 in favour of a return to work - though significantly 630 voted to strike without pay. The CPSA are now negotiating with Management a return to work.

I am copying this to Nigel Lawson, David Young, Paul Channon and to Sir Robin Butler.

N F

28 March 1988



FROM: MOIRA WALLACE

DATE: 28 March 1988

PS/CHIEF SECRETARY

cc Mr Anson
Mr H Phillips
Mr Hawtin
Miss Peirson
Mr Turnbull
Mr McIntyre
Mr Call

HOUSING BENEFIT AND UNEMPLOYMENT/POVERTY TRAPS

The Chancellor has seen the recent papers on this. He has commented that it is alarming that Lord Young (Jeremy Godfrey's letter of 24 March) fails to recognise that this is essentially a benefit and not a tax/NIC problem; and that it is an inescapable consequence of targetting benefit on the neediest.

mpw.

MOIRA WALLACE



MR CROPPER

FROM: J J HEYWOOD
DATE: 28 March 1988

- cc PS/Chancellor
- PS/Chief Secretary
- PS/Paymaster General
- PS/Economic Secretary
- Sir P Middleton
- Mr Culpin
- Miss Peirson
- Mr Tyrie
- Mr Call
- Mr Isaac - IR
- Mr Lewis - IR
- Miss Rhodes - IR
- Mr Carr - IR
- PS/IR

Ch.
See Mr Cropper's note,
immediately behind - and
IR's paper (which seems to have
crossed with this exchange), attached.

27/3

EMPLOYMENT AND SELF-EMPLOYMENT

The Financial Secretary was most grateful for your minute of 21 March a copy of which is attached.

2. The Financial Secretary would like you to discuss this with the Revenue and to get their comments.

3. He has commented that you will also need to consider the different NIC treatment.

*Mr Cropper's
minutes
talk time
taxes on
employees.
This may
be worth
investigating,
but I suspect
we will need to
be provided
with
Mr Cropper's
proposed
say
employer
share
was
self-*

9.17

JEREMY HEYWOOD
Private Secretary

*talk-time
employer
share
was
self-*

CONFIDENTIAL

FROM: P J CROPPER
DATE: 21 March 1988

FINANCIAL SECRETARY

EMPLOYMENT AND SELF-EMPLOYMENT

You invited me to record a few recent thoughts.

2. It seems to me that the basis of distinction between Schedule D liability and Schedule E liability is under great strain, and that the situation will become worse. As patterns of economic activity become ever more complex, and as more and more people find themselves with multiple sources of income, the old simplicity is breaking down.

3. Pressure on the Inland Revenue takes the form of a widespread desire to be taxed as self-employed under Schedule D. This pressure is not very surprising, given that the incidence of taxation under Schedule D has been deliberately made lighter than under Schedule E, in order to attract people into the enterprise sector.

4. The Inland Revenue now finds itself in the position of pig-in-the-middle. It seems to me that there are three possible ways ahead:

1. To abolish the schedular systems altogether. This would mean abandoning PAYE and placing everybody on an annual assessment basis, and increasing the manpower of the Inland Revenue. It would, I suggest, be unfortunate if PAYE had to be scrapped altogether: it still works very well in big organisations like the Civil Service and large companies, where people generally have one source of earned income.

2. To bring the incidence of tax under the two schedules into line, so that there was no reason for people to prefer being taxed under one or the other. I believe we should move in that direction, but that it would be impossible to do so in a way which would quieten the present clamour altogether.
3. To relocate the frontier between Schedule D and Schedule E. This would be done by forgetting about the present distinction between employment and self-employment and creating an entirely new basis for the distinction.
5. My suggestion is that we explore the third of these routes. My own proposal would be to
 - (i) Apply Schedule E firmly to those who would normally be taxed under PAYE at present, with the condition that they should be working a minimum number of hours for one employer (say 30). This will cover all those who clearly have a principal employment and a principal employer.
 - (ii) Tax everybody else under Schedule D, and tax people already caught by PAYE in (i) above, on any auxiliary earnings, under Schedule D as well.
 - (iii) Send to everybody an abbreviated annual tax return, simply requiring them to enumerate their sources of income - so that the Inland Revenue could decide who needed to be sent a full tax return in respect of non-PAYE earnings.
6. This reform would have the advantage of placing clearly in the Schedule D system those with multiple sources of income, including those with a mixture of what might at present be seen as part employment income and part self-employment income: as well as those who are quite clearly self-employed under the existing system.

7. Failing a solution along these lines, I believe we are likely to be driven eventually to abolishing the schedular system altogether and introducing universal annual assessment. That would only be possible, within the present resources of the Inland Revenue, by going for self-assessment. Self-assessment is probably the best of all solutions in the long run, but it will hardly be on the cards before the year 2000. Meanwhile the problem at the interface between the two existing schedules is with us here and now.



P J CROPPER



FROM: A J G ISAAC
28 March 1988

FINANCIAL SECRETARY

EMPLOYMENT AND SELF-EMPLOYMENT

1. Mr Carr's note below reviews once more the question of a "statutory definition" of self-employment.
2. On the specific question of a statutory definition, I suggest that we need to consider two main questions:
 - (i) Would a statutory definition of self-employment be better targeted?
 - (ii) Would it be simpler and avoid disputes?
3. On the first question, previous reviews by Treasury Ministers have all come to the conclusion that no statutory definition (or at least, no statutory definition yet suggested) would be better targeted than the present question "Are you in

cc Chancellor of the Exchequer
Chief Secretary
Paymaster General
Economic Secretary
Mr Monck
Mr Scholar
Mr Burgner
Mr Culpin
Miss Peirson
Miss Sinclair
Mr Cropper
Mr Tyrie

Mr Battishill
Mr Isaac
Mr Painter
Mr Beighton
Mr Cherry
Mr Deacon
Mr Lewis
Mr McGivern
Mr Marshall
Miss Rhodes
Mr Carr
PS/IR

mp



10 DOWNING STREET
LONDON SW1A 2AA

CHIEF SECRETARY	
REC.	30 MAR 1988
ACTION	Mr McIntyre
10	Col, Mr Andersen
	Mr Phillips, Mr Newson
	Miss Peerson, Mr Turnbull
	Mr Instone, Mr MacKusick

From the Private Secretary

29 March 1988

Mr Call

Dear Deborah,

EMPLOYMENT TRAP OF HOUSING BENEFIT POLICIES

Thank you for your letter of 23 March. I have also seen Rod Clark's letter to you dated 25 March.

I see that DHSS anticipate no difficulties in gearing the work of the inter-departmental official group to the timetable you propose. I take it that any subsequent Ministerial discussion before the end of May would proceed in line with the Prime Minister's wish (my letter of 17 March) that the conclusions of the work by officials should be fed into the Public Expenditure Survey in the normal way, with the appropriate Secretaries of State taking responsibility for their expenditure programmes.

I am copying this letter to Rod Clark (Department of Health and Social Security), Jill Rutter (Chief Secretary's Office), Margaret Jones (Scottish Office), Jon Shortridge (Welsh Office), Alison Brimelow (Department of Trade and Industry), Nick Wilson (Department of Employment) and Trevor Woolley (Cabinet Office).

*Yours,
Paul*

Paul Gray

Miss Deborah Lamb,
Department of the Environment.

The Rt. Hon. Lord Young of Graffham
Secretary of State for Trade and Industry

CONFIDENTIAL
The Rt Hon Norman Fowler MP
Secretary of State for Employment
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CH/EXCHEQUER	
REC.	29 MAR 1988 29/3
ACTION	CST
COPIES TO	

Direct line 215 5422
Our ref DCLAIS
Your ref
Date 29 March 1988

YTS IN THE CIVIL SERVICE

Thank you for your letter of 8 March which you sent me jointly with Richard Luce enquiring about progress towards the introduction of a YTS programme in my Department.

As I said in my letter of 2 September 1987 to Richard Luce, my Department has been examining ways of introducing a scheme for training in clerical workskills, in addition to our existing highly successful scheme for training telecommunications technicians. This work has now progressed to the point where our draft Training Proposal was submitted to the MSC last month. It has been favourably received by them and I hope that our scheme will be up and running in time to attract this summer's school leavers.

Our proposal is for an initial annual intake of 60 trainees in three groups of 20 in the London area to be followed by a further intake of 40 trainees in my Department's Regional Offices. Taking account of the two year's training under the scheme and of normal losses, we expect the Department of Trade and Industry to be training up to 150 young people annually through YTS by the end of 1990. We hope that many of these will qualify as permanent employees during, or on completion, of their training.

I am sending copies of this letter to the Prime Minister, other members of Cabinet, Richard Luce, and to Sir Robin Butler.

the
Enterprise
initiative