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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP  
Paymaster General  
Department of Employment  
Caxton House  
Tothill Street  
London  
SW1H 9NA

14 October 1986

Dear Ken,

**MEASURES TO ALLEVIATE THE EFFECTS OF MAJOR REDUNDANCIES**

You wrote to me on 25 September enclosing a paper by officials in response to a remit by E(A) for proposals for developing and targeting existing schemes to alleviate the effect of redundancies in the worst affected areas. I have since seen letters by Nicholas Ridley, Wynn Roberts and Michael Jopling.

Despite the work that has been done on this remit, I still have a number of serious reservations about the whole proposal. As the paper points out, it is hard to reconcile with our general approach to industrial restructuring and with the range of schemes and measures (usefully listed as annexes to the paper) which are already available to deal with redundancy and high unemployment. Moreover, as you recognise, this exercise is likely to have at best a limited impact on the problem of high unemployment compared to other approaches which we have recently considered. I would not therefore want to see this approach adopted other than in cases that were genuinely exceptional in their severity. For this reason it might be worth considering whether it would be better to seek prior collective Ministerial agreement that a particular case is suitable for processing through the new official machinery now proposed.

Subject to that very important caveat, I agree that the broad case by case approach suggested in the paper is generally sensible. Major redundancy situations can

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differ very widely both in their immediate impact and their long term effects. I would therefore go along with the setting up of an official group to advise Ministers on the case for and the composition of a package in individual cases following collective consideration as proposed above. The final decision whether to go ahead with a special package is a matter calling both for careful analysis and political judgement. It would therefore be for Ministers to decide once the official group had completed their work.

As you surmise, I do have serious reservations on two other points. The first concerns the financing of any special package of measures. While specific decisions will be taken as occasions arise, I think we should make it a firm aim that packages are financed within existing resources, ie by diverting and focussing help to the affected areas. This should normally be possible particularly for measures which have a short lead time which will often be the ones which are most relevant as a quick response to major redundancies. Certainly I could not accept a situation where a decision to implement a special package automatically led to a call for additional resources.

My second reservation concerns the suggestion in the paper that, despite the E(A) remit which referred to "existing" schemes, it might be sensible to go beyond this and relax the rules or introduce new initiatives. Like Wynn Roberts I hope we can resist this. Once we start making rule changes in response to a major redundancy situation, we will quickly come under pressure to extend the relaxation to other areas where there is an existing level of high unemployment or where redundancies are threatened. This would be costly in itself and would work against the focussed assistance which it is our aim to provide - a clear case of the tail wagging the dog. Any changes to existing schemes or proposed new schemes should be considered on their merits and quite separately from redundancy packages. Certainly I would expect that to be done if any of the suggestions in paragraph 14 of the paper are to be pursued further.

Two final points. First, I very much agree with Nicholas Ridley's suggestion that the official group look at experience gained over the operation of the various enterprise companies, perhaps particularly BSC (Industry) which has been operating for several years. Second, as the paper implies, the effectiveness of any package will depend crucially on the delivery system at local level. I accept that one cannot be too prescriptive and the choice will largely depend upon local circumstances. Nevertheless in my view we are more likely to see effective results if there is a commercially minded individual or body in the lead. I think we should aim for this wherever possible.

I am copying this letter to the Prime Minister and other members of E(A).

Yours etc,  
J.M.

JOHN MacGREGOR

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