



Policy Study No. 77

# Employment Examined

the Right approach to more jobs

Cyril Taylor





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CENTRE FOR POLICY STUDIES

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# Summary of recommendations

## CHAPTER 1

The Department of Employment should supply monthly data for the number in work in Britain as well as the number out of work.

In calculating the percentage of people out of work, the 2.6 million self-employed people in Britain should be included in the total of the employed workforce. To leave them out distorts the percentage of those out of work.

## CHAPTER 2

If money is available for tax cuts in 1987, the threshold for income tax should be raised in order to give those who are unemployed a greater incentive to work. Alternatively, a lower rate of 25% tax for the first £1,500 of taxable income should be introduced.

Changes to unemployment benefit should be made so that acceptance of a lower-paid job would be more financially attractive than remaining on the dole. A Green Paper should be written to discuss this.

The Rent Acts should be phased out with a transition period for existing tenancies of five years, during which rents would be brought up to market rates.

## CHAPTER 3

The highest priority should be given by the Government to deregulation, especially for small businesses. (cf., *Business Still Burdened: more regulations for the scrapheap* by Teresa Gorman, Centre for Policy Studies, April 1986).

In the field of planning law

- (i) if planning officers approve the granting of permission and the planning authority refuses, then a successful applicant should automatically be entitled to his costs
- (ii) the appeal process should be speeded up

- (iii) the presumption should be that a building already in commercial use may be used for other commercial purposes
- (iv) public participation in the planning process should be reviewed
- (v) consultation procedures in development plans (especially in local plans) should be telescoped. Frequently, local plans are out of date before they are even accepted
- (vi) one-stop centres should be set up in local councils where all the requirements of planning, district surveyor, building regulations, fire and health and safety can be handled

In the field of taxation

- (i) Tax inspectors should be under no obligation to maximize tax yields where it would not be cost effective
- (ii) Before authorising tax inspectors to take enforcement action which is likely to result in the closing down of a business, the Tax Commissioners should assess the likely consequences on jobs
- (iii) the current Revenue campaign to reclassify self-employed as employees of their major customers should be abandoned. At the very least, an amnesty should be granted so that self-employed people who are arbitrarily reclassified as employees do not face demands for back PAYE
- (iv) the threshold for Value Added Tax should be raised to £50,000

#### CHAPTER 4

More emphasis on training (rather than work experience) should be placed in the 2-year Youth Training Scheme. Colleges of further education should be encouraged to supply more of the teaching.

Successful completion of the Youth Training Scheme should lead to the award of a nationally recognized vocational certificate.

The Government should consider the setting up of 100 technical secondary schools funded by central government on a direct grant basis.

## CHAPTER 5

Legislation should be introduced to facilitate the setting-up of Small Firms Investment Companies similar to their equivalents in the United States.

Employees in small businesses with unlisted shares should be allowed to buy shares at any price agreed with an employer, with no income tax liability providing that such shares are held for five years.

The 1984 share options scheme should be amended to adopt the self-certification process of valuation used by the United States Treasury Department.

Legislation should be enacted to lay a duty on public bodies, local government and central government to place a minimum proportion of their orders with small businesses (assuming competitive tendering).

Rather than payment of cash subsidies to the regions, a new package of selective tax incentives should be offered, including the deferment of five years of corporation tax on new small businesses with pre-tax profits of less than £100,000.

The Department of Employment, in conjunction with the Department of Education and Science, should provide funds for the setting up of courses in small business management at selected further education colleges, similar to those organized by the Japanese Government.



# Introduction

Unemployment is the most serious problem facing our country today. Ever since 1982, the number of those registering for unemployment benefit in Britain has exceeded three million. But, although concern about this level of unemployment is widespread, surprisingly little is known about just who *are* the unemployed, and how our unemployment statistics compare with other Western countries. Public debate about the most effective measures to combat unemployment has also concentrated on how much or how little government should increase its spending in order to try to create jobs directly. Little discussion has taken place on the effectiveness of government measures to help business create jobs such as the Business Expansion and Business Loan guarantee schemes; or on the measures which should be taken to help existing businesses expand, and new ones be created.

In order to stimulate such discussion, the Centre for Policy Studies asked the author of the paper to organise a conference on unemployment at the House of Lords on Friday 31 January 1986 which was attended by 60 distinguished industrialists, Civil Servants and politicians. Opened by the Secretary of State for Employment, Lord Young, and attended by the Prime Minister The Rt Hon Margaret Thatcher MP, the conference studied working papers prepared by twelve industrialists, educators and civil servants. A list of the principal speakers and the participants is attached as Appendix I.

The conference firmly supported the Government's belief that real, lasting jobs cannot be created except by businesses supplying at a profit the goods and services which customers want at a price they can afford. No speaker suggested that the high level of unemployment could be brought down by means of large government spending in order directly to subsidize the creation of jobs. Larry Tindale, Deputy Chairman of Investors in Industry, succinctly said, 'employment is the outcome of business not the reason for business'. The record of such groups as the Greater London Enterprise Board shows the disastrous futility of trying to buy jobs with ratepayers' or taxpayers' funds. Such jobs have short lives. Worse, since they depend on public money, they divert precious funds from healthy firms.

Apart from expressing a concern about the continuously high level of interest rates, the conference generally supported the Government's macro-economic policy of giving priority to reducing inflation and – wherever possible – cutting back government expenditure. But it did hold the view that the Government could do more to help in four crucial areas: in increasing the incentive to work, lifting the burden of regulation, improving training and vocational education, and helping small business. This paper summarizes the principal findings of the conference in the four crucial areas. It also includes a new analysis of the unemployment statistics. Although many of the participants are extensively quoted, it should be emphasized that the paper represents the author's own conclusions, which may not necessarily be endorsed by all those who were present. For those desiring a fuller account of the conference, a verbatim 160-page transcript of the proceedings is available from the Centre for Policy Studies at a cost, including postage, of £25.

# 1

## Understanding unemployment statistics\*

The latest seasonally adjusted unemployment statistics show that 3,200,000 people were registered for unemployment in March 1986, equivalent to over 13.2% of the workforce. We have seen such figures in the headlines ever since September 1982. A recent poll in the London Evening Standard showed that 82% of the electorate regarded unemployment as the issue which most troubled them.

In discussing these statistics, the first point to be emphasized is that the figure of 3.2 million represents those claiming unemployment benefit, and not necessarily those actively seeking work. The number registered at the Job Centres as actively seeking work is only 389,000. (Ways of reducing this yawning gap are discussed in Chapter 2.)

Another statistic, too often forgotten, is the number of people in work. Since March 1983, this has risen steeply by 991,000, (see Appendix 2). The paradox of more people in work alongside more people registered for unemployment benefit is explained quite simply by the rapid expansion of the labour force. In Britain today, this comprises 27.2 million people, of whom 24 million (including the self-employed) have a regular paid job. No less than a quarter of the increase since 1951 in the size of the labour force has taken place in the last ten years. Data on those in work as well as those out of work should be supplied on a monthly basis by the Department of Employment, who should also gather evidence of people's willingness to work under this condition or that, without which unemployment figures have little meaning.

Two factors are responsible for the recent steep rise in the labour force. One is the baby boom of the 1960's, coinciding with the baby slump of the first World War. A high tide of school-leavers entered the job market in the '80s, while the number of job-leavers dwindled. Second, an ever higher proportion of

\* This chapter is largely based on the paper prepared for the conference by John Redwood, the Director of the Policy Unit at 10 Downing Street from 1983 to 1985.

women of working age either have jobs or are seeking them. Thus since 1951 the number of men in the labour force has remained roughly constant, but that of women has risen from seven million to nearly eleven million, and there are twice as many women in the labour force today as there were thirty-four years ago. In this respect Britain is ahead of most of the rest of the world.

Only fresh employment on a very large scale could accommodate such trends. Between 1975 and 1984, the economy needed to produce an extra 14 million jobs, merely to absorb the increase in the working population. Nor will this growth in demand for jobs slow down during the next few years. In the period 1984-7, the labour force is expected to rise by about 189,000 a year (though it will rise more slowly thereafter).

Our success in satisfying much of this extra demand for jobs means that we now have a greater proportion of our people at work than all other European countries, including our three principal competitors.

NUMBER AT WORK AS PERCENTAGE OF TOTAL POPULATION OF WORKING AGE

	1982
Britain	65.5
West Germany	61.0
France	61.0
Italy	55.3

(Source: OECD)

It must not be overlooked that – unfortunately – the official percentages for unemployment leave out of account the growing army of the self-employed, now standing at 2.6 million, 750,000 more than in March 1979. If we do include this group, the proportion said to be ‘unemployed’ drops by 1.4% to just under 11.8%.

It is interesting to compare our unemployment statistics with those of other developed countries. Our proportion of 13.2% – or 11.8% (including the self-employed) – must be looked at alongside Spain’s of 21%, the Irish Republic’s of 17%, and the Netherlands’ and Belgium’s of 13%. France, Canada and Italy have 10% of their workforce unemployed; Germany 8.8%; the United States 7.1%; Austria 3.5%; and Japan only 2.5% (See Appendix 3).

### **Patterns of unemployment by age and sex**

Whoever has in his mind a picture of a middle-aged family man in his late 40s, sitting at home filling in job application after job application and unable to get work, as being a typical victim of unemployment in Britain, should be disabused. Of course, such people do exist, many of them living in depressed towns and cities like Liverpool and Bradford. But they could just as easily live in Sheerness, Sheppey or Ramsgate as in Sheffield or Bradford. Moreover, the figures for both men and women show that the heaviest concentration of the unemployed is in the age group 20-34; and that male unemployment is much higher than female unemployment.

In October 1985, 211,000 people under the age of 18 were still unemployed; but as from early next year, none of these young people *need* be unemployed, since a full training place will be available to them on the two-year Youth Training Service (that is, if they do not stay at school or get a job). This still left, however, over 1 million people between 18 and 24 years of age – of whom 650,000 are male – at the core of the unemployment problem. Adding in the 25-34 year olds accounted for a further 750,000, and brought the total of those under 34 to two million out of the 3.4 million overall. Older people have shown themselves much more flexible over wages, working conditions, hours and work discipline – and much more likely to get the jobs. Even when early retirement policies are put into effect, pensioners get back into the workforce – either through the informal economy or the legitimate economy – and take jobs which, if they were so minded, young people could do instead.

There may be no typical 'unemployed person'. But what is certain is that the figures include many young, single males who do not relish the thought of traditional factory employment, or who find it too hard to obtain; and who are unwilling to enter the service sector – particularly in Northern cities where many of the new types of employment are thought of as 'women's work'.

Appendices 4 and 5 give comparative data for OECD countries on youth employment and long duration unemployment.

### **Patterns of unemployment by length of time out of work**

Perhaps the most worrying statistic relates to the long-term unemployed. In October 1985, 1,352,000 such people had been on

the register for unemployment benefit for more than 52 weeks.

This serious hard core represents over 41% of the total unemployed. Only France and Italy among the developed countries have such a high proportion. 16% have been on the register for between 26 and 52 weeks and 43% for less than 26 weeks.

### **Patterns of unemployment by region**

It is an opinion commonly held that the country north of the Watford Gap is by nature condemned to suffer high unemployment. Or, if not by nature, has not Government, sitting in the South, induced the decline in manufacturing industry visible north of the Gap? Here are a few locations to test this theory.

Common opinion is confounded. Unemployment in Dover and Deal afflicts exactly the same percentage of the workforce as it does in Derby. The percentage of unemployed in Canterbury is more than twice that in Clitheroe – 12.7% against 5.9%. And Hastings suffers very much more than Harrogate – 14% unemployment against 9%. Ranging further afield, how does Milton Keynes – a thriving, new town in the London hinterland – compare with Skipton, lost in the Yorkshire wilds? How does Thanet – perched on the South-easternmost tip of the South-east itself – compare with problem-ridden Leeds? And how does Weston-Super-Mare compare with its twin resort of Matlock the North? Again, the answers upset received opinion. Milton Keynes, 13%; Skipton, 8.4% ; Thanet, 20% ; Leeds, 13% ; Weston-Super-Mare, 15.2% ; Matlock, 7.8%.

Some answers are less surprising, it is true. Given the behaviour of Liverpool's local council, its rate of 21% unemployed, four times the level of Winchester, is only to be expected.

If you go north of the Border into Scotland, you find the Scottish Lowlands in the west and the Aberdeen area in the east have some of the lowest unemployment rates of any part of Britain. Travel into the heartlands of Belfast and Londonderry, and you will find the worst unemployment rates of all.

But, whatever the overall averages for regions, the employment figures for individual towns clearly demonstrate that there is no uniform North-South divide. On the other hand,

there *is* a divide between the inner cities which have been allowed to decay, often aided by the politics they have pursued, and the outlying suburbs and rural market towns which have determined to thrive.

Matlock has obviously been more successful at adjusting to the new patterns of tourism than Weston-Super-Mare. The South Lowlands of Scotland have given a better welcome to the hi-tech industries of the 1980s than has the hinterland of north Thanet.

Within London itself, extremes jostle. You can pass from Hackney, whose unemployment is among the worst in the country, a few miles down the road to Westminster and the City of London where vacancies for many jobs are hard to fill. (Appendix 6 and Appendix 7 give data on regional unemployment and selected travel-to-work areas.)

These variations are not God-given, immutable. Nor are they evidence of a stingy Government deliberately singling out particular parts of the country for malevolent cuts, in order to 'teach the lesson of unemployment'. They do provide evidence how some communities fail to adapt, for a hundred reasons to do with the social fabric, the nature of businesses, the level of rates, the attitude of local councils to planning.

### **The 'decay' of manufacturing**

A common belief, especially among Labour Party politicians, has it that our problem lies in a decline in manufacturing; and that employment and prosperity will be restored only if we recreate the manufacturing jobs of the past, and protect those that still remain. This school of thought sees the drift towards more employment in the service sector as a sign of enfeeblement of the economy, and refuses to accept that firms providing services can generate as much real wealth as those providing goods.

International comparisons fail to support any such belief. In our country, services now provide some 65% of total employment.

In the United States and Canada, the percentage has reached 68%. Australia, Belgium, the Netherlands and Sweden all have higher proportions of employment than we have in the service sector. And yet most of these countries enjoy higher GNPs per head of population and lower levels of unemployment.

It is true, however, that in Germany and Japan, both of

whom are indisputably richer countries than Britain, with fewer problems of unemployment, the proportion of those working in the service sector is much lower than in ours – 53% and 56% respectively.

Closer study of the figures reveals that the real conclusion to be drawn from the debate on service versus manufacturing is that countries with a high level of employment in the service sector – the US, Canada, Britain, Sweden etc. – all have far more women at work. In Japan and Germany, 1.5 men are at work for every 1 woman, while in the United States and Britain the proportion is 1.3 to 1. (In every country, women work preponderately in the service sector. In Britain and the United States, 80% of women work in the service sector; even in industrially successful Japan, 61% of women work in services compared with only 28% in manufacturing.)

Fewer jobs in manufacturing does not necessarily imply any real change in the underlying economy. If ICI, for example, prefers for the sake of flexibility to farm out computing activities previously done in-house to computing bureaux, figures for employment in the manufacturing sector go down as the spare computer programmers lose their jobs at ICI, and go up in the service sector as the computer bureaux take on ICI's redundant workers. Nothing of any significance has changed in the economy. ICI is still making as much product; it is still using as much computing power. It has simply switched one of its activities to a business in the service sector.

To the extent that British manufacturing industry has been farming out many of its activities – computing, estate agency, investment management, Treasury functions, design, research and so on – there has been neither decline in manufacturing activity nor rise in service activity, merely a change of definitions.

But of course it would be altogether wrong to imply that manufacturing employment has *not* declined. Redundancies have been many and painful. Some sectors of British manufacturing have utterly failed to respond to overseas competition. We know the weaknesses only too well. Demand for motor vehicles in Britain has never been higher than during the last three years. Yet Britain has held less of the market than it did in the early 1970s. Introduction of new model ranges and injection of public money have been of no avail. The British



electronics industry which, contrary to common belief, has been losing rather than gaining jobs, has – for all the changes it has made – failed to match competition in every area of activity.

Companies in the booming '80s marketplace of information technology – electronic switching, telephone exchanges etc. etc. – are in trouble. Finally, some basic industries have had, superimposed upon their lack of innovation, their failure to respond to technological changes and poor productivity, the ineluctable problem of declining world demand. Shipbuilding and steel are obvious examples.

Here is a brief 10-year perspective. The office machinery, electrical engineering and instrument industries have seen their workforce fall from over 950,000 to 840,000 employees. The motor vehicle industry has seen its workforce almost halved from around 500,000 to 280,000 employees. Metal manufacturing, including steel, along with ore and mineral extraction, has seen its workforce fall from just under 800,000 to just over 400,000 employees.

In contrast, employment in the service sector has grown apace. Education for example, although suffering (we are told) deep and damaging cuts, has seen employment rise from a figure of 1.45 million in June 1975 to one of 1.54 million in June 1985. Over the same period the numbers employed in medical services have risen from one to 1.3 million. Also contrary to common belief, the retail trade has not been a great source of growth; its numbers employed are constant at around the two million level. Hotels and catering have produced 600,000 new jobs: figures have risen from 800,000 to 1.4 million.

The pattern is one of an economy in which many are valiantly adjusting to the pace of technical change while many others continue to fall behind. But by and large, even the best firms are failing to exploit modern technology with the same skill, eagerness and resolution as the Germans and Japanese. If we are to compete in to-day's world markets, this *must* change.

## Increasing the incentive to work

In his speech to the conference, Lord Young, the Secretary of State for Employment, said that 'if you are a married man with two children and you want to take home £25 per week more than the typical benefit package [and he mentioned that £25 was a typical cash wage for a day's work] it would be necessary to find a job paying £160 per week, if deductions for tax and insurance were made'. £160 per week is nearly the average national wage. If two days' cash work a week were obtained the comparable wage necessary to equal the after-tax income of remaining on the dole would be nearly £200 per week.

These startling figures lend considerable support to the opinions voiced at the conference by Ralph Howell MP, Sir Michael Edwardes and Professor Patrick Minford that many people have no financial incentive to accept a low-paying job. They are better off drawing unemployment benefit, rates rebate, rent rebate and the host of other allowances available – nearly all of which are lost immediately they accept low-paid jobs and find themselves paying national insurance, plus 29% income tax on that portion of their wage over the tax-free allowance. Effectively their tax rate at work *versus* remaining on the dole thus approaches 100%. When, in addition, you take into account the number of part-time jobs available in the 'black' economy, for which cash is paid and no deductions are made, the lack of incentive for many on the unemployment register to accept low-paid full-time jobs becomes even clearer. (Cp. the recent article in the *Guardian* which told of a window-cleaner who persuaded the local tax office to pay him in cash!)

This absence of financial incentive is made worse by the way unemployment benefit is paid *ad infinitum*. As Ralph Howell so rightly pointed out in a recent article, the Beveridge plan never envisaged that benefits should be paid indefinitely to those who, if they wished, could find employment perfectly well.

Beveridge saw that if the State established an effective safety net, whereby every unemployed man would be entitled to food, clothing and shelter, *without* imposing the necessary counter-balance whereby he had to prove his willingness to work

after a period of time, the unemployed would come to depend too heavily on the State, and the burden on those who created wealth would become unbearable. He said:

'The danger of providing benefits which are both adequate in amount and indefinite in duration, is that men, as creatures who adapt themselves to circumstances, may settle down to them . . . Men and women in receipt of unemployment benefit cannot be allowed to hold out indefinitely for work of the type to which they are used or in their present places of residence, if there is work which they could do available at the standard wage for that work. Men and women who have been unemployed for a certain period should be required as a condition of continued benefit to attend a work or training centre . . . The period after which attendance should be required need not be the same at all times or for all persons. It might be extended in times of high unemployment and reduced in times of good employment; six months for adults would perhaps be a reasonable average period of benefit without conditions'.

(Cmd. 6404, paras 130-131)

While, of course, many of the 3.2 million unemployed are genuinely seeking work (in particular those living in such areas as Tyneside, Merseyside and the West Midlands), a substantial portion of those drawing unemployment benefit, perhaps as many as half a million, might well find jobs if a financial incentive in the form of tax reductions encouraged them to do so; or if a time-limit was placed on the payment of unemployment benefit. Estimates that the 'black' economy now accounts for 7½% of the GNP lend credence to this view.

A further powerful disincentive to find work is constituted by archaic Rent Acts. These have reduced private rented accommodation to just 10% of the total housing stock from a peak of nearly 50% in 1945, and severely restrict the mobility of labour. In the United States (except in New York City where there is rent control) and Germany, plenty of reasonably priced private rented accommodation can be found. Workers unemployed in one area can move without difficulty to another area where jobs are available. In Britain, where little private rented accommodation now exists (other than for company lets and foreign tenants)

unemployed workers in poor towns wanting to take jobs in prosperous ones find it very hard indeed to house themselves. Not only is private rented accommodation in short supply, but council-housing waiting lists are long and high house prices and mortgage rates put home purchase beyond their means.

But these three problems – taxation which makes low-paid jobs unattractive, payment of benefit without limit in time, and the lack of mobility due to rent control and house prices – are all capable of being solved.

### **Cut taxes for the poor**

If the Government has money available for tax cuts in 1987, it should be used to raise the threshold for income tax. Those who are unemployed would then have a greater incentive to accept low-paid jobs. Even more effective would be a lower income tax of say 25% or less, instead of the new standard rate of 29%, for the first band of taxable income. If there is money available to lower the basic rate of tax to 25% and to increase allowances, then that would be even better.

A recent study by the Low Pay Unit shows how desirable it would be to re-introduce a lower-band tax rate. It claimed that the number of families forced to depend on Family Income Supplement (FIS) to top up their wages had trebled from 80,000 in 1979/80 to 220,000 today – yet four out of five of these families are still required to pay income tax.

A reduced rate band of income tax of 25p in the pound on the first £1,500 of taxable income at a cost of about £1.3 billion would give, across the board, an average tax cut per person of £60 a year.

The lower-band tax would be a more progressive use of money than an extra rise in allowances above inflation – since it would reduce marginal tax rates for the poorly paid while ensuring that every taxpayer, rich or poor, received the same reduction in tax. The statistics on the following page give support to this view. The study from which they are drawn pointed out that many low income families, dependent on housing benefit, are also subject to income tax. The number facing effective marginal tax rates of about 75% (due to increased tax and withdrawn benefits as gross income rises) has increased from about 90,000 in 1979 to an estimated 480,000 today. If this is the

## 1986/7 RATES AND BANDS

Range of taxable income	% tax	Estimated no. of tax payers*	
		000s	% of total
Tax free income:			
£2335 (single) to			
£3655 (married)			
<hr/>			
£1 of taxable income			
to £17,200	29	19,938	95.2
£17,201 to £20,200	40	439	2.1
£20,201 to £25,400	45	255	1.2
£25,401 to £33,300	50	157	0.75
£33,301 to £41,200	55	67	0.32
over £41,200	60	85	0.41

*(Estimated on basis of Inland Revenue statistics 1982/3 HMSO 1985)*

case for low paid workers, it is even more discouraging for those at present on the dole, contemplating a low paid job, and realizing how much benefit they would lose if they accepted it.

### **Reform unemployment benefit**

Changes in the rules for the payment of unemployment benefit are more controversial. If the Government recommended (as is the case in many parts of the United States) that payment of unemployment benefit should be limited to six months instead of 12 months as at present, with those out of work after that period having to rely on supplementary benefit or 'welfare', the political uproar would be tremendous. Could not a test be devised whereby those still drawing unemployment benefit would have to show that they were actively seeking work? This controversial idea should now be studied. Benefit could be withdrawn after a given period from those who refused a given number of job offers, as is done in California. A Green Paper should be prepared on ways to encourage the unemployed to accept jobs rather than to remain on the dole.

Meanwhile, the Government's Community Programme is most welcome, encouraging, as it does, the long-term unemployed to accept a year's work on such worthwhile jobs as clearing derelict sites in their local communities, for a weekly payment of £67. Started in October 1982, this programme now provides jobs for 200,000 of the long-term unemployed, a figure

increased by the last budget to 255,000. Surveys show that those who have taken part in it are twice as successful in getting a job as other long-term unemployed people.

Another contribution to solving the problem is the Job Start Scheme, which gives a weekly allowance of £20 to those who take a job offering a wage of less than £80 a week after they have been unemployed for at least 12 months. Very welcome, too, is the new Workers' Scheme, which helps 18-20 year-olds to find a job, providing for a payment of £15 a week for a year to any employer taking on an 18 or 19 year-old at a wage of up to £55 per week.

Finally, the Enterprise Allowance Scheme, which pays unemployed people £40 a week for up to a year while they start their own business, is proving extremely successful. Launched nationally in August 1983, it has benefited 65,000 people, a figure which has been increased by the 1986 budget to a potential 100,000 a year. Evidence shows that for every 100 businesses set up under the scheme, some 50 *extra* jobs are created, as the successful businesses take on new employees. (In April 1985, the scheme was expanded to take on 1250 unemployed people a week. £111 million was being provided for the scheme in 1985/6.)

### **Abolish the Rent Acts**

The problem of lack of private rented accommodation could and should be solved speedily. The present Rent Acts should be repealed forthwith. Existing tenants could be protected in some measure from unacceptable rent increases by phasing them to market rent levels over a number of years. But new tenancies should be unrestricted both as to tenure (except for normal lease safeguards) and as to rent levels. If a free market existed in rented accommodation, the supply should increase dramatically, with a commensurate fall in rents.

The argument that the Rent Acts are impossible to repeal because a future Labour Government would reinstate them should be given short shrift. The same argument was applied prior to the introduction of the sale of council houses and the privatization of nationalized industries.

## Lifting the burden of government regulation

Lord Young has made the welcome statement that the Government intends that those people who develop businesses and create jobs should not be held back by excessive regulations. We do indeed need to tackle the three Rs: restrictions, rules and regulations.

In 1985, the Government published its White Paper *Lifting the Burden* which said that too many people in central and local government spend too much time regulating the activities of those who create wealth. The burden is greatest on small businesses whose owners and managers are wholly responsible for all the operations, including questions of employment. Every hour spent on form-filling is an hour less spent on running the business.

The White Paper outlined proposals for simplifying planning procedures, raising the VAT threshold, clarifying the criteria for deciding whether a person is employed or self-employed, simplifying the employment protection laws, considering the future of Wages Councils, abolishing restrictions on shop fronts, and reviewing fire, health and safety regulations.

All these proposals are welcome. Unfortunately, deregulation is supported more easily as a principle than put into effect. Local government officials, tax inspectors and civil servants can be relied upon to argue why things cannot be changed.

The typical business today has to cope with regulations stemming from ten regulatory bodies. These include planning controls, building regulations, fire prevention requirements, health and safety at work, PAYE/National Insurance requirements, statutory sick pay, the dreaded Value Added Tax, the terms and conditions of employment, and various licensing bodies. No wonder that so many small businessmen strike their tents in despair and depart for the black economy.

The author therefore recommends a very high degree of urgency in implementing the proposals contained in the White Paper *Lifting the Burden*, and in the Centre's own recent

publication *Business Still Burdened*. But it is doubtful whether other Government Ministers, particularly at the Minister of State level, share the Prime Minister's and Lord Young's zeal for deregulation.

### **Planning laws**

Excessive regulation in planning, in the approval of share option schemes, and even in registering a company name, are among the aggravations and impediments to the growth of small businesses. (The author speaks from experience.) Planning law is a particular nightmare. In London especially, the difficulties of finding a way through the planning, building control, health and safety and fire regulations, have reached Alice-in-Wonderland proportions. Where a building proposal involves a change of use, then delays and obfuscations are endless.

It is usual for the planning process to take up to nine months. In Central London over 50% of the planning applications are turned down. The developer then has to appeal to the Department of Environment, with a very high proportion of the appeals being successful. Before the abolition of the GLC, larger schemes had to be approved by that body as well as by the local council. Even after planning approval is obtained, a developer is often faced with onerous conditions, and his plans are subject to further review by council staff. Finally, detailed, often contradictory instructions emanate from the district surveyor, the fire inspector, and the health and safety inspector. Interference by self-appointed residents' committees is the straw which often breaks developers' backs. The power of such groups to block reasonable development of business properties by bringing pressure to bear on local councillors must be experienced to be believed.

The conference was addressed by Mr Clifford Joseph, a distinguished barrister, on his chosen subject of planning law. He held that, despite the principle dating back to 1949 that planning permission should be granted unless the development would cause demonstrable harm to acknowledged interests, both the general public and the majority of local planning authorities now operate on the presumption that permission is granted *as a favour* to the developer. Indeed, many planning committees composed of local politicians are reluctant to grant a change in use if they believe that the developer will make a profit! The way in which



they make their decisions is becoming ever more political and ever less professional. They know that if the developer does not conform to their decisions he will suffer all the costs of an appeal, not to speak of the delay to the development. The sole expense to the authority is the time of the officers.

The public is usually against change and for maintenance of the status quo. Have public rights to 'participate' in each and every planning decision gone beyond reasonable limits? These rights have been granted by statute, statutory instrument, circular and even by the Courts. They should at least be reviewed.

Elected members of the planning committee are after all given the duty of making planning decisions. And this should be recognised when considering the extent of public participation. Some argue that it should be extended still further (eg by giving any objector a right of appeal against a grant of planning permission). It is time for this tide to be turned back. Judicial review procedures should be scrutinised, to see whether they do not bear unduly hard upon developers.

Local authority planning departments may be less than perfect, but they do supply the necessary professional expertise. Mr Joseph believed that if planning officers recommend the granting of permission and the planning authority refuses, then the successful applicant should automatically be entitled to his costs whether the appeal is by public enquiry, informal hearing or written representation. This would replace the present rule whereby costs are awarded only in exceptional circumstances.

Local planning authorities should be prevented from slowing down the appeals. Fewer onerous conditions should be attached to grants of a planning approval.

In order to speed up the planning process, the following changes to planning law should be considered:

- a the general presumption should be that a building in one commercial (ie non-industrial) use may be adapted for any other commercial use
  - b an applicant successful on appeal should normally be awarded costs against the local planning authority if it has acted contrary to the advice of its town planning officers
  - c award of costs should apply to every kind of appeal
  - d planning decisions and appeal processes must be speeded up.
- The deadline of eight weeks is rarely observed

- e consultation procedures in development plans, especially in local plans, should be telescoped; frequently such plans are out of date before they are even accepted
- f 'one stop' centres should be set up in local councils, where all the requirements of planning, district surveyor, building regulations, fire, and health and safety can be studied and processed.

### **Attitudes of the Inland Revenue**

Attitudes of the Inland Revenue and Customs and Excise staff greatly affect business, especially small business. A distinguished tax adviser, Robert Maas, in addressing the conference, said that the Government must choose between encouraging enterprise and squeezing the last penny of tax. At the moment, lip service is paid to enterprise but the practical realities are that:

- a all small businessmen are regarded as cheats to be treated with extreme suspicion (if not actually discouraged from continuing in business); and
- b any risk that a taxpayer may manage to avoid even a miniscule part of his liability far outweighs the advantages of any workable tax incentive.

Mr Maas believed that tax inspectors were misguided to spend so much time reviewing the expenses of small businessmen (often totalling a few hundred pounds) while the affairs of larger businesses often escaped scrutiny.

The Business Expansion Scheme is hedged about with so many restrictions that many worthwhile schemes designed to produce much-needed jobs never come to fruition. Tax Commissioners should be given two basic principles in conformity with which they should exercise their powers:

- a in common sense they should be under no obligation to maximise tax yields where it would not be cost-effective to do so.
- b before authorising their officers to take enforcement action likely to result in the closing-down of a business, the Commissioners should pay regard to the effect of their proposed action on employment. Most insolvencies of small businesses are precipitated by either the Inland Revenue or the DHSS.

The present campaign by the Revenue to reclassify self-employed people as employees of their major customers should be abandoned. An amnesty should be granted to prevent arbitrary demands for back PAYE on self-employed people who (because of changes in rules on a retrospective basis) are reclassified as employees. Between 1979 and 1983, 107,000 such people were involuntarily so reclassified by the Inland Revenue. As matters stand, if a self-employed man is redefined as an employee, his employer may be made liable to pay up to six years in his back taxes and National Insurance contributions.

Concern was also raised at the burden on the very small businessman of collecting Value Added Tax. The current VAT exemption level of turnover of £20,500 a year was thought to be too low. It should be increased to £50,000. This step would, of course, be subject to approval by Britain's EC partners. However, a review should be undertaken now to study the implications for the Revenue. It is generally believed that the cost of collecting VAT on businesses with a turnover of between the current exemption of £20,500 and £50,000 almost outweighs the revenue earned.

The present restrictions on employers giving share options to their employees must be radically altered if the Government wish to pursue their avowed intentions to widen ownership. The author has personal experience of the Revenue's delay in approving the value of share options which he wished to give to his staff.

Why should not the Inland Revenue adopt the process of self-certification used in the United States, where share options are used widely to encourage participation by workers in the success of their companies? Under this scheme, the only requirement is that an independent valuation – usually prepared by a company's underwriter – be obtained. Share option schemes in the United States are also subject to easily understood conditions of a minimum holding period. Providing these conditions are met, the company proceeds on the basis that capital gains will be levied in the ordinary way, without having to submit its particular scheme for approval.

For too long civil servants, local government officials and tax inspectors have adopted an anti-business stance. It is time this attitude changed. If an enterprise culture is to flourish, a spirit of

fair partnership between employers and regulators (similar to the good relationship enjoyed between Japanese businessmen and their government officials) should be nurtured. Is it too much to hope that British civil servants will come to think of themselves as part of Britain, Incorporated in the way that Japanese officials think of themselves as partners in Japan, Incorporated?

## The crucial need to improve training and vocational education\*

45% of all our young people leave school at the age of 16 without even *one* traditional 'O'-level pass or its equivalent. Only 27% leave school with 4 'O'-level GCEs or equivalents, and only 18% leave school with one 'A'-level pass.

Thus, nearly half of our school leavers are coming on the labour market at the age of 16 having failed to gain good qualifications at school, their chance of a decent job slim.

Are secondary schools, then, failing our nation? More and more people think so. The egalitarian ideals of comprehensive schools have not been translated into the provision of a trained work force. Mixed ability teaching has meant that the half of the school population more interested in vocational training than in academic education has been inadequately catered for. That vocational skills are so little taught has to a large degree been responsible for young British school-leavers finding it so hard to obtain work. For a whole lost generation little or no training investment has been made. No wonder we have lagged behind our industrial competitors. The destination of 16-year-olds in Britain has been:

Year	Population ('000)	Employment ('000)	(Of which employed as apprentices) ('000)	YTS ('000)	Without* Job ('000)	Difference (largely staying at school or college) ('000)
1961	750	515	(130)	—	—	235
1971	740	420	(110)	—	—	320
1979	900	405	(100)	—	45	450
1980	920	310	(80)	—	150	460
1983	900	180	(35)	230	65	425

\* Including those on YOP in 1979 and 1980

(Source: Manpower Services Commission)

\* This chapter is based largely on the contributions of Ian Johnston, Chief Executive of the Training Division, Manpower Services Commission, and Ian Mitchell Lambert, Headmaster of Howbury Grange Technical School.

It can be seen how employment and apprenticeships have been falling. Without the provision of the Youth Training Scheme, the number of young people without a job or any real training would have been even higher. In 1980, 31% of all boys and 42% of girls entering employment (over 100,000 young people in total) were in jobs with no associated training. A further 150,000 had no jobs at all.

International comparisons of 16 to 18 year-olds in education and training in 1981 show how far Britain lagged behind other advanced countries.

PERCENTAGES OF 16 TO 18 YEAR OLDS IN SCHOOLS AND TRAINING 1981

	<i>Full-time</i>		<i>Part-time</i>	
	<i>School</i>	<i>Training</i>	<i>(excl YOP)</i>	<i>Total</i>
Germany	31	14	40	85
USA	65	14	—	79
Japan	58	11	3	72
France	33	25	8	66
Italy	16	31	18	65
Britain	18	14	25	57

(Source: Manpower Services Commission)

Introduction of the one-year Youth Training Scheme in 1983 was an important step forward. Extension of the scheme in 1986 to two years training for all school leavers without a job will improve matters further, for *all* trainees will then enjoy the opportunity to obtain a vocational qualification. Organisations participating in the scheme will be required to achieve an approved training status. Trainees will be paid a minimum allowance of £27.30 per week in the first year and £35 per week in the second. MSC will pay employers £39 per week per trainee and administrative costs. The Government plans to spend £970 million on the scheme in 1986/87, rising to £1.25 billion in 1988/89.

At present nearly 300,000 young people are on the Youth Training Scheme. Results so far have been encouraging. 61% of those entering the scheme find a job at the end of their training; 27% continue, to get a recognized vocational qualification; about 28% become unemployed.

Despite this success, the YTS scheme has been criticized on two counts. First, some say it is merely a method of 'massaging' the unemployment numbers down. Second, trade unions accuse YTS of being a form of cheap labour. With improvements, the scheme will play a major role in enhancing the skills of our school leavers; and both criticisms will be seen to be groundless.

The quality of the training offered, however, is open to question. It is regrettable that so few colleges of further education or even sixth form colleges or secondary schools are involved. The scheme would be greatly improved if more qualified technical school teachers were encouraged to take part. The primary emphasis of YTS should be upon training rather than work experience. The Government have tacitly recognised this by launching the Technical and Vocational Education Initiative (TVEI) in order to improve training for young people who choose to stay on at school beyond the age of 16. TVEI consists of a series of 74 pilot projects in two-thirds of the education authorities in Britain. Its budget is about £170 million.

The projects differ, but typically they involve five secondary schools and a further education college acting in concert to design and deliver new courses in business, electronics, information technology, commerce, design, retailing, computer studies, engineering, graphics etc. They attempt to make the curriculum more relevant to working life without sacrificing breadth and balance. Each TVEI student must also get work experience, and try to obtain a nationally recognised diploma.

Problems exist – for example, an insufficient supply of teachers of technologies and business. It is not easy to bridge the 14-16 and the 16-18 divide. The qualifications which are available are not always suitable for young people to try to obtain. TVEI also provides an entrée for industry into education, but response has been patchy.

Although the Youth Training Scheme and the TVEI are welcome steps, fundamental questions remain. Are the secondary schools providing relevant education for the half of their pupils who do not desire a purely 'academic' curriculum?

When you consider the three tracks available at most American high schools – college, commercial and industrial – and the similar division of the curriculum at French *lycées* – '*classique*', '*moderne*' and '*technique*' – and compare this choice with the

mixed-ability single curriculum available at most British comprehensive schools, the answer must be *no*.

Within the Conservative Party, concern about the quality of state education has been growing. Unfortunately, debate has centred overmuch on the provision of education for more academically gifted children. The provision of assisted places at independent schools and the return of direct-grant grammar schools – both these principally affect students who will be taking 'O'-levels and 'A'-levels. If we are to eradicate the problem of youth unemployment, we must pay more attention to the future of those of our young people who would prefer to acquire commercial and technical skills. Provision for their needs is scant, although the introduction of the new GCSE examinations should improve matters.

### **Howbury Grange Technical School**

The conference was fortunate in being able to listen to Ian Mitchell Lambert, headmaster of Howbury Grange Technical School in the London Borough of Bexley which has 650 boys and girls and is situated close to the large former GLC housing estate of Thamesmead.

This remarkable school is one of only 14 technical schools in the entire country. Its purpose is to provide teaching suitable to a student body of whom one-third is below average in ability; and one-third comes from single-parent families. It is situated in an area which draws heavily on the Social Services, the Housing Department and, regrettably, the Probation Service – a 'rough area', in short.

Until recently, a high proportion (more than a quarter) of the school's leavers were going straight onto the dole. After the arrival of Ian Mitchell Lambert, it was agreed with the Bexley educational authorities that the school should become:

- \* a technical school
- \* and also a community school
- \* teaching both boys and girls
- \* with a curriculum open to pupils of all abilities
- \* which is taught throughout the ages 11-19



The curriculum was rearranged as follows:

*Year 1* A special transition programme from primary to secondary school emphasising literacy and numeracy.

*Years 2 & 3* A programme in which every subject and skill taught in the school is experienced so that informed choices can be made for examination courses.

*Years 4 to 6* An integrated programme of examination courses and work experience which allows pupils either to leave at 16 or continue for one or two years in the sixth form.

The curriculum gives equal importance in all years, one to six, to eight basic disciplines:

- Linguistic and literary
- Mathematical
- Aesthetic and creative
- Scientific
- Human and social
- Physical
- Spiritual
- Moral

To these eight bases has been added a ninth:

- Technical and technological, namely business studies, craft, design and technology, information techniques (computers), food technology.

All pupils take a programme of these basic disciplines and carry two technologies to public examination level.

During their last two years, every pupil spends at least a week in each year working with a local firm. As well as offering direct work experience, the school has set up its own unit for work simulation called Job Generation Ltd. This provides a variety of opportunities for pupils to work alongside adults in the same way as at work. Such opportunities include:

- working with the school secretary in the school office;

- manning the school reception desk;

- working in the school's electronic office, mainly producing worksheets and administrative material for the staff;

- designing and tackling solutions to environmental problems (eg litter, graffiti, landscaping);

building a waterfall and fountain system for the pond;  
running the school's electronic newsboard, transmitted throughout the day;  
networking the school's computer systems;  
networking the electronic newsboard system;  
producing a newspaper from start to finish;  
producing the school magazine;  
creating long-term storage areas for school records;  
running the school bank;  
refurbishing old cars;  
building a hovercraft;  
keeping and breeding goats; and  
designing advertisements for local tradesmen.

Regular contact is maintained with local employers who are asked for their views on which skills should be taught. Most satisfactorily, this approach has helped to reduce by half the school's leavers going onto the dole. Almost a quarter now go on to College with another quarter going on to a local high-powered YTS in which the school is actively involved. Despite the continued existence of grammar schools in Bexley, Howbury Grange is now one of the most popular schools in the borough. It has taught its boys and girls that manual and technical skills are just as valuable as academic skills. It has followed the example of American, French, Japanese and German schools which instil the attitude that the ambition to be a skilled, highly paid motor mechanic or electrician or plumber or computer operator, is praiseworthy. (Often in these countries, such workers are paid much more than white collar workers.)

It is recognised that few comprehensive schools have the capacity to teach the skills now being taught at Howbury Grange. In-service training of the teachers themselves would have to be set up.

One way to solve this problem would be for the creation of one hundred centrally funded direct-grant technical schools.

These should initially be concentrated in deprived inner city areas, but ultimately each of the 85 education authorities should have at least one technical school to serve as a beacon to other schools in the area.\*

Locally and nationally, the professional and industrial sectors could work with parent and teacher representatives to deliver a common core curriculum with programmes adapted to local needs and conditions. This recommendation is perhaps the most important to come out of the conference. Its implementation would prove that the Conservative Party cares about education for the non-academically inclined majority of school children – in much the same way as the sale of council housing proved that the Party cared about home ownership for all.

*\* For a detailed study of technical schools in four countries – Britain, the US, Germany and Russia – readers are invited to obtain copies of 'Technical Schools' by Fred Naylor from the Centre for Policy Studies for £4.20 (plus 30p p & p).*

## The importance of small business to creation of new jobs\*

Recent history in the US shows how successful small businesses can be in generating new employment. There, in the last 10 years, they have created 20 million new jobs while over the same period, their big brothers (the Fortune Magazine top 500 companies) have shed 5 million jobs. Small businesses are now responsible for some 38% of the country's Gross National Product. In one year alone – 1984 – about 4 million new jobs were created by small business.

This success is no accident. Action by the United States Government has directly contributed to past growth and present availability of venture capital. Three policies have been followed:

- a the maximum rate of capital gains tax has been reduced from 49% to 28% in 1978, and from 28% to 20% in 1981.
- b rules for management of pension funds were relaxed in 1979, to allow fund managers to invest in so-called high risk ventures.
- c the Small Business Investment Act has greatly increased the amounts of venture capital available by providing attractive tax benefits for investment in small business.

Over 30 years ago the need was recognised for an institutional source of equity capital for smaller businesses. In 1958, a completely new way of creating specialised sources of equity capital for small business was developed. Discarding the concept of a capital bank, the new plan harnessed privately-operated investment companies providing them with certain tax benefits and with rights to borrow from the Small Business Administration (SBA). The small business investment companies were given this special status by the Small Business Investment Act of 1958 – a most important milestone on the road to developing the venture capital industry.

*\* This chapter is based on contributions by Sir Charles Villiers (Chairman, British Steel Corporation (Industry) Ltd), Ron Fidler (Chairman, Oakland Management Holdings Ltd), Larry Tindale (Deputy Chairman, Investors in Industry Group), John Hatch (Managing Director, Venture Link (Holdings) Ltd) and Tony Davies (Chairman, Information Technology Group Ltd)*

There are now approximately 390 private and public firms licensed as Small Business Investment Companies (SBICs) by the Federal government in the United States.

Of the several different kinds of SBICs the most important distinction exists between those that are:

- a Lending orientated, primarily placing loans with local businesses (some 170 firms)
- b Equity orientated, primarily involved in venture capital investments (some 220 firms)

This latter group includes large SBICs with \$2m or more in private capital which due to their qualification as 'venture capital orientated' can be leveraged with government loans at a 4:1 ratio. Equity orientated SBICs have a total capital pool of \$1.6 bn.

In 1984 SBICs invested \$425m through 1,844 small companies (a 14% increase over the previous year). A total of 320 SBICs made at least one financing during the year.

Of the dollars disbursed 60% went to small businesses less than 3 years old, and 21% to companies 3-6 years old. On average, business financed by SBICs in 1984 employed 45 people, had revenues of \$2.1m and assets of the same amount.

The increasing importance of the Small Business Investment Companies in the United States (responsible for 30% of all venture capital invested), and their contribution to the financing of new companies, many of them in high technology fields, suggests that similar legislation should be enacted in Britain.

The CBI has indeed been urging since 1981 the introduction of legislation to encourage the setting up of Small Firms Investment Companies (SFICs) in Britain, with personal tax relief allowable to individuals investing in them. The Business Expansion Scheme introduced in 1983 goes some way to fulfilling the original objectives of the SFIC proposals; but more needs to be done.

SFICs could, by means of a small number of legislative changes, be accommodated within an extension of the Business Expansion Scheme legislation. Many of the conditions would be the same as those at present in the BES as it stands.

A Small Firms Investment Company would be an incorporated company. It might be public or private, quoted or

unquoted. Investors would own shares in the SFIC which would in turn own shares in investee companies.

Individuals resident in Britain would be eligible to make investments in SFICs. The tax incentive allowed to individuals would not be relevant to institutions, but the management offered by the SFIC might make it an attractive instrument for institutions to invest in small businesses.

The SFICs would invest in unquoted companies incorporated and resident in Britain. Companies with shareholder funds in excess of £2m would be excluded from approved investments. This would prevent large unquoted companies capable of raising funds from other sources absorbing money available under the scheme – one of the weaknesses of the present BES legislation.

Shares would be held for at least five years if tax relief is not to be clawed back. Tax relief for individuals would be the same as with BES; and it is proposed that the SFIC would be exempt both from capital gains tax and from taxation of income derived from eligible investment institutions.

A SFIC might seek a quotation on the Stock market, USM or OTC Market. Even if unquoted, SFICs' shares should be more marketable than investments in BES companies since there would be a wider range of both individual and institutional investors. Quotation would be likely only for larger SFICs which had an established track record. The involvement of institutional investors is important. Many are interested in smaller businesses but lack the expertise themselves to manage investments in them. If they saw SFICs as a convenient vehicle wherewith to hold such investments, they would be likely to ensure that there was some kind of market in their shares. Thus, SFICs could fill an important gap in present venture capital arrangements.

### **Giving incentives to small business managers**

Another serious problem impeding the growth of small business in Britain is the scarcity of managerial talent. If competent and experienced management is to be attracted from larger companies, financial incentives must be good. We have a lost generation of entrepreneurs in our country – men now in their later thirties and early forties. They spent the 1970s comfortably watching the value of their houses outstrip the size of their

mortgages. Many will spend the 1980s brooding over the cost of leaving their company pension schemes. These are the professional managers which small businesses desperately need as they grow too big for their founding entrepreneurs to run by themselves. Yet the Inland Revenue continues to put obstacles in the way of transfer of shares or share options to such new managers.

An earlier Conservative Government dithered over property ownership. Fifteen years ago, Government wanted to reduce the cost of maintaining council houses and to turn tenants into owner-occupiers. But 'informed opinion' averred that it was quite impossible to sell council houses at huge discounts. We now know better – and the results in terms of owner-occupation have been instant and decisive.

Today's goal is not so much home ownership as share ownership – and especially, share ownership for employees. The way is not hard to find. Firms should be permitted to sell shares to employees cheaply – or even better to *give* shares to employees – and the present punitive taxation incurred in such transactions should be removed.

Is it really surprising that we have problems in giving incentives to our managers, when one basis of our tax system is that shares must *not* be acquired by virtue of employment? In order to avoid penal rates of income tax, people have to pay solicitors to argue that their shares were acquired for any reason *except* that, as a key employee, they deserved them. How could anything be more absurdly counter-productive? Small wonder that only 6% of the British people directly own shares compared to more than 20% in the United States.

The 1984 Finance Act introduced a complicated share option scheme. Unfortunately it requires the tax inspector to agree option price based on a fair market price. Frequently companies giving share options are not publicly trading, and negotiation over a price proves extraordinarily troublesome, agreement hard to reach.

Employees *should* be able to buy shares at any price agreed with the company, without any income tax liability if they are held for, say, five years. A small business would then be able to offer a new managing director an immediate and substantial share in the business over and above his salary – possibly to offset

the loss of pension rights on moving jobs. Even more important – always provided that the shareholders of established companies thought it worthwhile – it would be able to create shareholder employees at a stroke.

### **Set aside and guarantee**

Another direct way to stimulate the creation of new small businesses would be for government to encourage public bodies, local government and its own departments to place more business with small business. Two benefits for small companies would flow from this: more orders, and greater credibility with other customers including overseas customers. Such a public procurement policy would of course need a tight definition of which small businesses would qualify; and records would need to be kept of business placed with qualified companies. Alternatively, small businesses could be guaranteed a share of public sector business indirectly, through the encouraging of sub-contracting by larger private sector firms. Tendering would naturally be required but quite likely small business, if actively encouraged to bid for contracts, would often provide better bargains for public sector buying departments. Nor is it unreasonable to suggest that say a quarter of public sector contracts might be reserved for small businesses, providing their prices were competitive. In addition, government might consider guaranteeing contracts placed by public sector buyers if they placed an order with a small firm which later went bankrupt.

Notoriously, the Greater London Council under Ken Livingstone set up 'contract compliance units' to ensure that successful tenderers were trade unionised and did not discriminate against assorted minority groups. Somewhat more reasonably, a Conservative Government could set up 'enterprise compliance units' to ensure that entrepreneurs received a fair share of public sector contracts.

### **Encouraging small business in the regions**

It is not easy to attract new small businesses to the regions. During the four years to the end of 1983, 106,000 *more* new small businesses started than failed in Britain. Nearly half of these, however, were in London and the South.



## NET NEW SMALL BUSINESS CREATION IN BRITAIN

		% total
Scotland	6000	6
Wales	5600	5
Northern Counties	3800	4
Yorkshire & Humberside	7600	7
London & the South	46000	42
Others	37000	35
Total	106000	100

*1977 – 1983 (based on VAT returns)*

Regional aid is presently under review. But one may well question whether direct subsidy in the form of cash has been, or will be, successful.

The 'enterprise culture' is spreading only gradually to areas of high unemployment – where the employee culture has for many years prevailed. Selective tax incentives rather than cash subsidies should be tried in the regions. For example, a deferment for five years of corporation tax and Schedule D tax on businesses with pre-tax profits of £100,000 p.a. or less (providing such profits were not paid out in dividends or perks) might help struggling smaller businesses to build up the capital they need.

### **Enterprise boards**

The record of enterprise boards, especially municipal ones using ratepayers' money has been poor. But one enterprise board which has been impressively successful is that of British Steel Industries (BSI) – possibly because most of the £50 million it has employed since its setting-up in 1945 has been its own.

Over 2000 companies employing over 30,000 people have been assisted at a cost of less than £2,000 per job. (Approximately 400 of the companies, or 20%, have failed.) At first, BSI made grants to new companies in areas where large steel works had been closed down. In 1981 BSI changed to a system of soft loans, with 90% of them being for less than £25,000.

BSI has paid great attention to training of management, including the establishment of a curriculum in schools called 'Going to Enterprise'. And BSI has learned from the experience of the Japanese Small Business Corporation which lends funds only

to those who can give proof of competence in small business management. The Japanese Small Business Corporation even runs three teaching centres of its own.

As part of the Technical and Vocational Education Initiative the Government should provide funds for a number of further education colleges in Britain who would specialize in teaching small business management. Together with the setting-up of 100 direct-grant technical schools, as advocated in Chapter 4, this could be a most important way to encourage the creation of small businesses, and simultaneously to reduce the most distressing numbers of unemployed youth.

# Appendices

- 1 Names of principal speakers and list of participants in the Employment Conference organized by the Centre for Policy Studies on 31 January 1986
- 2 The employed labour force March 1983 to December 1985
- 3 Comparative overall employment data for OECD countries
- 4 Comparative youth unemployment data for OECD countries
- 5 Comparative long duration unemployment data for OECD countries
- 6 Regional unemployment in Britain
- 7 Travel-to-work areas in Britain with low and high unemployment

# Appendix 1

## Conference on Employment on 31 January 1986

THE PRIME MINISTER, THE RT HON MARGARET THATCHER, MP

### Principal Speakers

Duncan Bluck *Chairman, the British Tourist Authority* Tony Davies  
OBE *Chairman & Chief Executive, Information Technology Group*  
Sir Michael Edwardes *Chairman, Chloride Group*, Ronald Fidler  
*Chairman, Oakland Management Holdings and former President of*  
*Black & Decker* Hon Rocco Forte *Chief Executive, Trusthouse Forte*  
John Hatch *Managing Director, Venture Link (Holdings)* Ian  
Johnston *Chief Executive, Training Division, MSC* Ian Mitchell  
Lambert *Headmaster, Howbury Grange* Peter Miller *Chairman,*  
*Lloyd's* John Redwood *Former Head, No. 10 Policy Unit* Lord  
Thomas of Swynnerton *Chairman, Centre for Policy Studies* Larry  
Tindale *Deputy Chairman, Investors in Industry Group* Sir Charles  
Villiers *Chairman, British Steel Corporation (Industry)* Rt Hon Lord  
Young of Graffham *Secretary of State for Employment*

### Participants

Jeffrey Archer *Deputy Chairman of the Conservative Party* Professor  
Mark Blaug *Employment Research Centre, University of Buckingham*  
Samuel Brittan *Economics commentator, Financial Times* Ross  
Buckland *Chairman and Managing Director, Kelloggs* Dr John  
Burnett *Principal of the University of Edinburgh* John Burton *Research*  
*Director, the Institute of Economic Affairs* Ronald Butt *The Times*  
Jonathan Gestetner *Chairman, Gestetner International* Richard  
Giordano *Chairman & Chief Executive of British Oxygen Group*  
Teresa Gorman *Westminster City Councillor* Sir Ronald Halstead  
*Treasurer, Centre for Policy Studies* Ralph Howell *MP for Norfolk*  
*North* Michael Ivens *Director, Aims of Industry* Clifford Joseph  
*Barrister-at-law* Dr Oliver Letwin *No. 10 Policy Unit* Robert Maas  
*Tax Partner, Casson Beckman* Professor Patrick Minford *Professor of*  
*Economics, Liverpool University* Professor Peter Moore, *London*  
*Business School* Graham Reid *Chief Economist, Department of*  
*Employment* Graham Ross Russell *Deputy Chairman, Stock Exchange*  
Cyril Taylor *Centre for Policy Studies* Sir Peter Thompson *Chairman,*  
*National Freight Consortium* Oscar De Ville, *Board Member, British*  
*Rail* Lord Vinson *Chairman, Development Commission* Ian Weston-  
Smith *Chairman British United Industrialists*

## Appendix 2

## The Employed Labour Force, Great Britain

seasonally adjusted: '000

	Employees				Self Employment				HM Forces				Employed Labour Force			
	Males		Females		Males		Females		Males		Females		Males		Females	
	Full time	Part time	All	Persons	All	Persons	All	Persons	All	Persons	All	Persons	All	Persons		
1983																
March	11,733	4,948	3,866	8,814	20,547	1,651	497	2,147	306	15	321	13,689	9,326	23,015		
June	11,702	4,934	3,939	8,873	20,574	1,652	508	2,160	306	16	322	13,660	9,397	23,057		
Sept	11,690	4,933	4,009	8,942	20,632	1,702	527	2,229	309	16	325	13,701	9,486	23,186		
Dec	11,687	4,948	4,081	9,029	20,716	1,751	547	2,298	309	16	325	13,747	9,592	23,339		
1984																
March	11,670	4,949	4,126	9,075	20,745	1,801	566	2,367	310	16	326	13,781	9,657	23,438		
June	11,664	4,939	4,160	9,099	20,762	1,849	586	2,435	310	16	326	13,823	9,700	23,523		
Sept	11,677	4,940	4,192	9,132	20,809	1,867	596	2,462	312	16	328	13,856	9,744	23,599		
Dec	11,713	4,946	4,255	9,201	20,914	1,884	606	2,489	311	16	327	13,907	9,823	23,730		
1985																
March	11,703	4,957	4,290	9,247	20,950	1,901	616	2,516	310	16	326	13,913	9,879	23,792		
June	11,710	4,959	4,331	9,270	20,980	1,918	626	2,543	309	16	326	13,937	9,912	23,849		
Sep	11,684	4,956	4,369	9,305	20,989	1,935	639	2,574	309	16	326	13,928	9,960	23,889		
Dec	11,712	4,955	4,413	9,368	21,079	1,952	652	2,604	307	16	323	13,971	10,036	24,006		
Change																
Mar 83 to																
Dec 85	-21	+7	+547	+554	+532	+301	+155	+457	+1	+1	+2	+282	+710	+991		

Source: Department of Employment, March 1986

# Appendix 3

## Standardized unemployment rates in sixteen OECD countries Per cent of total labour force

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	Q1	Q2	1985	Q3
United States	4.8	5.8	5.5	4.8	5.5	8.3	7.6	6.9	6.0	5.8	7.0	7.5	9.5	9.5	7.7	7.2	7.2	7.1	
Japan	1.1	1.2	1.4	1.3	1.4	1.9	2.0	2.0	2.2	2.1	2.0	2.2	2.4	2.6	2.6	2.5	2.5	2.6	
Germany	0.8*	0.9*	0.8*	0.8*	1.6*	3.6*	3.7*	3.6*	3.5*	3.2*	3.0*	4.4*	6.1*	8.0*	8.5*	8.4*	8.8*	8.8*	
France (R)	2.4	2.6	2.7	2.6	2.8	4.0	4.4	4.9	5.2	5.9	6.3	7.3	8.1*	8.3*	9.7*	10.1*	10.1*	10.1*	
United Kingdom	3.0*	3.7	4.0	3.0	2.9	4.3	5.7	6.1*	6.0*	5.1*	6.6*	9.9*	11.4*	12.6*	13.0*	13.2*	13.3*	13.2*	
Italy	5.3	5.3	6.3	6.2	5.3	5.8	6.6	7.0	7.1	7.6	7.5	8.3	9.0	9.8	10.2	10.4	10.2	10.2	
Canada	5.6	6.1	6.2	5.5	5.3	6.9	7.1	8.0	8.3	7.4	7.4	7.5	10.9	11.8	11.2	11.1	10.5	10.2	
Major seven countries	3.2*	3.7	3.8*	3.4*	3.7*	5.4*	5.4*	5.4*	5.1*	4.9*	5.6*	6.4*	7.8*	8.2*	7.7*	7.6*	7.6*	7.6*	
Australia	1.6	1.9	2.6	2.3	2.6	4.8	4.7	5.6	6.2*	6.2	6.0	5.7	7.1	9.9	8.9	8.5	8.5	8.1	
Austria	1.4	1.3	1.2	1.1	1.4	1.7	1.8	1.6	2.1	2.1	1.9	2.5	3.5	4.1	3.8	3.8	3.5*	3.5*	
Belgium	2.1	2.1	2.7	2.7	3.0	5.0	6.4	7.4	7.9	8.2	8.8	10.8	12.6	13.9	14.0	14.1	13.4	12.7*	
Finland	1.9	2.2	2.5	2.3	1.7	2.2	3.8	5.8	7.2	5.9	4.6	5.1	5.8	6.1	6.1	5.9	6.1	—	
Netherlands	1.0*	1.3*	2.2*	2.2*	2.7*	5.2	5.5*	5.3	5.3	5.4	6.0	8.5	11.4	13.7	14.0	13.3*	13.2*	13.0*	
Norway	1.6*	1.5*	1.7	1.5	1.8	2.3	1.8	1.5	1.8	2.0	1.7	2.0	2.6	3.3	3.0	2.9	2.2	2.6	
Spain	2.4*	3.1*	3.1*	2.5*	2.6*	3.7*	4.7*	5.2*	6.9*	8.5	11.2	14.0	15.9	17.4	20.1	21.6	21.4	—	
Sweden	1.5	2.5	2.7	2.5	2.0	1.6	1.6	1.8	2.2	2.1	2.0	2.5	3.1	3.5	3.1	3.0	2.9	2.8	
Switzerland	—	—	—	—	—	0.4	0.7	0.4	0.3	0.3	0.2	0.2	0.4	0.9	1.1	1.0	1.1	1.1*	
Total of above countries	3.0*	3.5*	3.6*	3.2*	3.5*	5.1	5.2*	5.3*	5.1*	5.0*	5.7*	6.6*	8.0*	8.6*	8.2*	8.2*	8.1	—	
Memorandum item																			
EEC <sup>a</sup>	2.6	2.9	3.2	3.0*	3.0*	4.4	5.1*	5.4*	5.5*	5.4*	5.9*	7.6*	8.9*	10.1*	10.7*	10.8*	10.9	—	

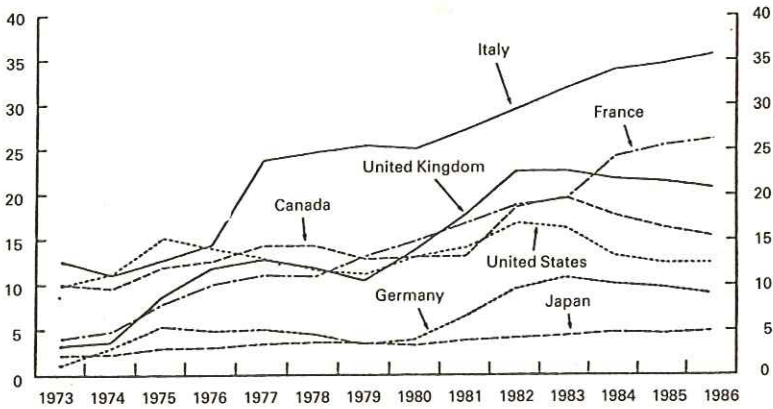
<sup>a</sup> EEC: countries shown: Germany, France, United Kingdom, Italy, Belgium and Netherlands.

Note: Data have been adjusted (as far as possible) both to preserve comparability over time and to confirm with the definitions drawn up by the International Labour Organisation. The adjustments mainly affect countries that base their unemployment statistics on registration records maintained by employment offices. Where necessary the OECD has tried to adjust "registered" unemployment with a view to including unemployed persons not covered on the register and to excluding employed persons still carried on the register. Series adjusted by the OECD are marked by an asterisk (\*). Revision is marked by (R).

Source: Quarterly Labour Force Statistics, OECD.

## Appendix 4

**Youth Unemployment in Selected OECD Countries (1)**  
(Percent of total youth labour force)

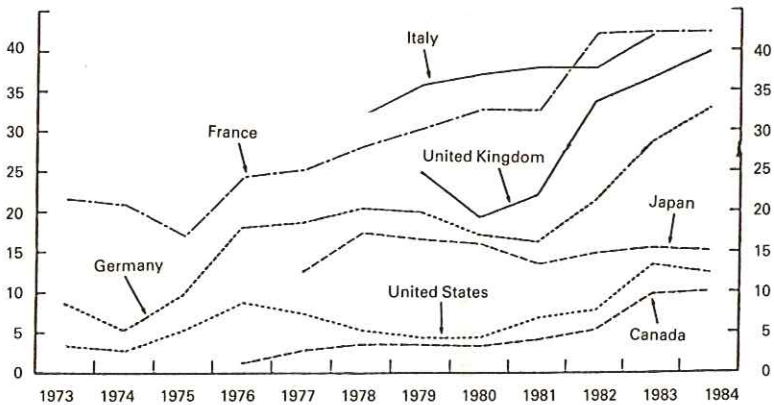


Source: OECD Employment Outlook, September 1985.

1. The term 'youth' generally refers to the 15-24 age group. With a few exceptions the age group is 14-24 in Italy and 16-24 in United States and United Kingdom.

## Appendix 5

**Long Duration Unemployment (12 months and over)**  
(As percentage of total unemployment)



Source: OECD, Employment Outlook, September 1985.

## Appendix 6

### Unemployment rates by regions – March 1986

<i>Region</i>	<i>Number 00's</i>	<i>%</i>
South East (inc. Greater London)	769 (394)	9.7 (10.3)
East Anglia	82	10.8
South West	201	11.8
West Midlands	338	15.0
East Midlands	198	12.4
Yorkshire & Humberside	304	14.9
North West	436	15.7
North	232	18.4
Wales	177	16.6
Scotland	339	15.0
Northern Ireland	123	21.1
United Kingdom	3,198	13.2

## Appendix 7

### Travel-to-work areas with the highest rates of unemployment

<i>Region</i>	<i>TTWA</i>	<i>Rate</i>	<i>No UI/Empl</i>
South East	Thanet	21.6	8,515
East Anglia	Wisbech	18.0	2,987
South West	Newquay	29.5	2,888
West Midlands	Telford & Bridgnorth	21.7	13,024
East Midlands	Skegness	26.6	2,916
Yorkshire & Humberside	Rotherham & Mexborough	23.5	24,580
North West	Liverpool	21.3	107,891
North	South Tyneside	26.5	16,084
Wales	Cardigan	27.9	1,750
Scotland	Forres	28.3	814

### Travel-to-work areas with the lowest rates of unemployment

<i>Region</i>	<i>TTWA</i>	<i>Rate</i>	<i>No UI/Empl</i>
South East	Winchester & Eastleigh	5.5	4,049
East Anglia	Cambridge	6.9	8,270
South West	Cheltenham	8.3	6,116
West Midlands	Leek	9.6	1,141
East Midlands	Matlock	8.3	1,430
Yorkshire & Humberside	Malton	8.0	516
North West	Clitheroe	6.0	746
North	Kendal	8.5	1,687
Wales	Carmarthen	10.4	1,744
Scotland	Aberdeen	6.7	10,737

(Source: Dept. of Employment, October 1985)



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