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Chris Patten

Sir Keith Joseph

7th January, 1976

I am writing about PFC/75/9, being the brief on Unemployment and the Economic Situation. I am not trying in this note to comment on the economic analysis. I much agree with the heading of Section 1 "The long term dangers of short term palliatives". But I am asking you to take into account my comments on the passages connected with unemployment and I am copying this note to Jim Prior.

I have a number of points to make and hope that you will go through them patiently with me as I describe them.

It is, first of all, intensely important that we should avoid opportunism in handling unemployment. This, to a very large extent, we have done. We are now in a time when, as Margaret and Geoffrey and Jim have been saying and as your brief emphasises, much of the increasing unemployment now results from Labour's spending spree in 1974 when they stamped on the public sector accelerator while nearly throttling the private sector to death - and while our competitors were decelerating hard.

We can therefore - and I do not dispute this in any way - legitimately blame Labour for making our problems worse.

What seems to me essential - and I know that neither you nor Jim disagrees with this - is that we should not back up or legitimise the demands that will come for reflation.

Secondly, we shall in due course be the Government again and any success we can have in obtaining a deeper understanding of the real relationship between supply and demand in labour will be enormously to our advantage, even though Labour in Opposition will be both unscrupulous and strident.

I now turn therefore to the relationship between supply and demand in labour - the labour market.

Of course the unemployment figures present one aspect of reality. They record the registration both of unemployment and of vacancies. But these monthly statistics have to be read in the light of the notes issued from time to time by the Department of Employment itself. I attach two recent articles from the

DE Gazette March 74 pp 21-6
.. 75 pp 174-183; "Gazette",

"Gazette", one of March 1974 and one of March 1975, There have been several others. These and other articles explain 1) that actually vacancies are two to three times as many as registered vacancies; 2) that those unemployed include some who are not likely, for various reasons, either to obtain in some cases, or to hold, in other cases, jobs; some who because they are effectively retired are not really in the labour market, some who are changing jobs and some who are "somewhat unenthusiastic" to obtain jobs. These are not moral judgements. They are all qualified in various ways but they are the comments of the Department itself.

There is also the fact that a number of people are, at any rate for a period, either better off or not notably worse off when unemployed than when in work. Incidentally, I would not myself put as much faith in the Daniel's PEP pamphlet on which Robbie Gilbert's brief largely depended as he did - but I will send you separate comments on that.

I attach a copy of the latest issue of the Centre's corrected unemployment figures and ask that the notes carefully commenting on each of the aspects referred to above should be looked at again by you and CRD. They are all culled from the Department of Employment's "Gazette". *essentially*

The Department of Employment has in fact, since we started producing these monthly comments, significantly improved their own statistics to meet some of the criticism that was being made not only by the Centre but by Sam Brittan and others as well. If you still think that I am being unrealistic, please consider how it can be that with unemployment in London at apparently a high level, there should be so many instances of unfilled vacancies. Only recently I have found Underground booking kiosks closed because staff cannot be obtained. London Transport has 3,000 vacancies for drivers who, after training and admittedly with overtime, will be earning £70 a week.

Many jobs in the provinces are eagerly *sought* after. Other jobs are not.

Yet of course Ted Heath was right when, in a recent speech, he said that the monthly unemployment figures underestimate the number of unemployed. We know that some unemployed do not register. ~~Where~~ is a note in the Centre's paper referring to this. Most of those who do not register are married women, available only for limited, part-time work. They are not a general source of labour supply - and they do not register because they would get no benefit from doing so.

If they are excluded, they also are excluded those who what is called "work and draw", that is, draw unemployment benefit while they are in fact in work. No one knows their numbers but no one denies that some exist.

...../ But

But Ted Heath could have gone on to make the much more powerful point that if you include overmanning - that is, concealed unemployment - the unemployment figures would be millions more than are registered.

This is another aspect of truth. Why I was so disappointed in the brief was because no recognition of these over-lapping aspects of truth were mentioned. We solemnly reproduced, for example, the vacancy figures from the Department without even warning colleagues that they understate, by a factor of two to three, the reality. There are many more points that I could add. You will have seen, for instance, that there are now occasional reports that employers who seek juvenile labour have to refuse the boys and girls available because their educational standards are too low.

I do ask therefore that CRD's thinking on the subject should widen.

Finally, may I contribute a new analytic tool on which the Centre has been working. Please see the attached short table headed "Flows of Unemployment" and the chart corresponding to it. One of the great improvements in the Department's monthly figures has been their inclusion each month of the unemployment flow. You will see that those joining the register and those leaving the register have, in recent months, been much closer to each other. This would appear to be an encouraging sign. But trends are too new to be able to rely upon them. I would have thought there was a good deal more redundancy to come whether or not the Government seriously tackles steel, rail, postal, car and other public sector over-manning. As Jim Prior said so powerfully just before Christmas, jobs saved by subsidies in one place will only result in other jobs being lost to pay for the subsidy. But for what its worth, you may like to take account of the flows of unemployment.

I apologise for the length of this minute but I could have made it double as long by referring to the real needs - more effective retraining, a fire-warehousing market, much more market oriented employment services open in the evening and at the weekend - and, beyond our power, less rigidity by trade unions.

c.c. The Rt. Hon. James Prior M.P.
Robbie Gilbert Esq.