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Prime Minister (4)

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To note  
MS 6/5

PRIME MINISTER

CPRS UNEMPLOYMENT STUDY

Robin Ibbs' minute of 26 March, covering the CPRS interim report on unemployment, invited us to consider whether we share their interim assessment of the causes of unemployment and whether we are content with their proposals for further work.

2. What we most need, I suggest, are clear views on how to tackle the unemployment problem practically. There are dangers in concentrating too much on analysis and too little on the scope for action. I believe the further work should aim at identifying relatively briefly the many factors which have contributed to the rise in unemployment over the last 20 years without becoming too side-tracked in "theology". It should try to provide some indication of each factor's relative importance, although views on this are likely to differ and no precise estimates are possible. The report should concentrate on identifying causes only to the extent that they are relevant to finding the right policy prescriptions. The most important task of the report should be to suggest how and over what timescale remedial action might be undertaken - necessarily across a broad front, involving many areas of policy.

3. The analysis needs to distinguish clearly between the temporary or cyclical elements and the structural component of the unemployment problem. Our main concern must be with structural unemployment, which in my view reflects deep-rooted

/and long-standing



and long-standing problems not just in the labour market but in our goods and services market generally. (Internal Treasury work suggests that structural unemployment may now exceed two million.) It would be useful to compare our experience with that of other similar countries; this may help identify the influence of such common factors as the sharp rise in real oil prices and increasing competition from newly industrialised countries. This aside, I hope the analysis could focus broadly on our poor competitiveness and not merely on real-wage inflexibility. The most striking contrast between us and our main competitors seems to me more our low productivity levels (often reflecting resistance to new techniques) than excessive real wages.

4. In addition, I suggest that the work might look not only at other causes of labour market inflexibility besides the benefit and union aspects, but also at how imperfections in goods and service markets cause unemployment and how central government policies may also have contributed to the problem. Some specific topics (in no particular order) are set out in the  
 .... Annex herewith.

5. The analysis should lead into specific policy proposals. The most serious aspects of the problems will no doubt be the most difficult to resolve, for both economic and political reasons; but I hope that CPRS will be radical, and moreover that they will not regard unsuccessful discussion of this or that option in the past as ruling out fresh efforts.

6. It will be helpful if the work can equip us to deal effectively with policy options put forward by others, like the Layard ideas for a wage-inflation tax and for employment subsidies, the Minford proposals for a 10 per cent cut in benefits, and the various ideas for early retirement and work-sharing. We need to have a clear analysis of the disadvantages and limitations

/of these ideas,

No ??



of these ideas, as well as any comments they may have.

7. I do not want to urge specific policy ideas at this stage. But I believe there are certain themes which might help form a broad framework; for example:-

- (a) All restrictions on competition are potentially damaging; the goal of increased competition should underpin policy towards regions, industry and employment. We must be ready to take a strategic view even in face of short-term tactical pressures.
- (b) Radical action is needed to redress the imbalance of power between employers and employees, and to improve attitudes to work. This means restricting union immunities on the one hand, and on the other increasing the involvement and responsibility of employees through better employee communications.
- (c) We need to press ahead vigorously with every possible fiscal and other measure to establish new and competitive centres of activity; and to back this by a presumption in favour of new activity by de-licensing and de-regulating as widely as possible. We should be prepared to look with an open and sceptical eye at all forms of restriction, regulation and licensing imposed by Government, central or local.

8. As to procedure and handling, I imagine we do not envisage publishing the CPRS work. But the importance of the message means we must plan to draw on it to change public perceptions. So long as the "solution" to unemployment is generally seen by the wider public as the management of demand, the PSBR or exchange rates, it will be difficult to gain acceptance of the radical policy actions that are needed. We have to shift attention to

/the real roots

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the real roots of the problem, and the need for changes in the way both our labour and our good markets work. This need is all the greater in that achieving practical results takes time.

9. I am copying this minute to Norman Tebbit and John Sparrow.

A handwritten signature in black ink, appearing to be "G.H." with a flourish.

(G.H.)

30 April 1982

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ANNEX

Labour Market

- (i) Benefits - further work to update data on the replacement ratio beyond 1980; an analysis of the importance of incentives needs to incorporate other relevant information such as the enforcement of availability for work regulations, tax thresholds and in-work benefits and the changing distribution of the unemployed - an increasing proportion of single or "married no children" unskilled workers with low benefit entitlement.
  
- (ii) Unions - further evidence on union mark-ups will no doubt be illuminating; but the analysis needs to include examination of low productivity - how attitudes to new technology and restrictive labour practices prevent change and the impact of this on competitiveness and hence unemployment.
  
- (iii) Mobility - in addition to housing, the influence of factors such as transferability of pensions and different schooling arrangements ought to be considered; better information services are also crucial - for example more private sector agencies to cater for low skill jobs (now largely handled by Job Centres).
  
- (iv) Training - we need to look specifically at the retraining issue now that there are so many long term unemployed with no or obsolete skills; but the problems of matching training to industry's needs could bear further analysis.

/Wider Considerations

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Wider Considerations

- (i) Competition - in product markets where there is an absence of competition from either domestic or foreign sources, opportunities arise for employees to gain higher wages than would be warranted in a competitive situation and/or enjoy low productivity levels, without jeopardising the future of the employer. We need further analysis of the relationship between employment, productivity growth and wages in sectors with different degrees of openness to foreign competition and different degrees of concentration.
  
- (ii) Taxation - the effect of long-standing subsidies to capital through the tax system, and taxes on labour costs on production techniques and hence labour inputs, needs to be examined.