

PREM 19/3808

PART 3

Confidential filing

Meetings with the TUC.

INDUSTRIAL POLICY

Consultations with Trade Unions.

Part 1: May 1979

Series closed - see Trade & Industry mtgs with Unions

Part 3: August 1987.

Referred to	Date	Referred to	Date	Referred to	Date	Referred to	Date
2-9-81							
8-9-82							
12/12/84.							
16.4.92							
PREM 19/3808							

Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

Programme for Recovery – TUC Economic Review 1982
Published by Trades Union Congress, February 1982
Printed by Macdermott & Chant Ltd

The Reconstruction of Britain
Published by Trades Union Congress, August 1981
Printed by Twentieth Century Press

Regenerating our Inner Cities: A TUC Policy Statement
Published by: Trades Union Congress, July 1981
Printed by Macdermott & Chant Ltd

Signed

J. Gray

Date

2/9/2017

PREM Records Team

C.F. J.F. with NEDC
PPC name CA. replied. AH 5/5

Prime Minister
Before sending a reply
you might like to discuss
with C/Ex and the President
B/T
Agree to proceed then?

MT 11/4

AT/
Ask C/Ex for her view first.

Ref. A092/1207

MR TURNBULL

What are prior conc of abolishing NEDC.
Pl. ask lobby that he
can report papers a the
consulting Treasury.

Relations with the TUC

3. Gov. of T. has plans to, 7 gather - Jack H. has details 1.8.84

I had a long telephone call from Norman Willis this morning. --- He is putting out a circular to TUC affiliates (copy attached) which, while he realises that it may appear bland, is regarded as significantly consolatory in TUC terms. His message was that he and the rest of the "NEDDY 6" want to develop a working relationship with the Government. They would like to have a meeting with the Prime Minister, but want to suggest this in a form which would be acceptable to him and do not want to make an open approach which would be turned down. What they have in mind is that the Prime Minister might agree to chair the first meeting of NEDC under the new administration, which is on 17 July, when there will also be a new Director of the CBI. The TUC would regard that as a helpful signal of the Prime Minister's wish to keep channels open.

2. Mr Willis also mentioned for completeness that the European TUC would be seeking a meeting with the Prime Minister at the start of the UK presidency. According to Mr Willis, this is a regular event which has never been turned down by the head of the Government holding the presidency (although you may want to check whether Mrs Thatcher held such a meeting). It is, however, different from the domestic exercise mentioned above.

3. Mr Willis said that the TUC would also be seeking courtesy meetings with the Secretary of State for Employment and the Secretary of State for Trade and Industry in the usual way.

4. I said that I would report Mr Willis' approach to the Prime Minister but that, since he was now away until 27 April, he will



not be able to take any early view. I commented that the way in which Mr Willis was approaching the matter seemed to me to be helpful. I said that, when I knew what the Prime Minister's plans were in relation to the chairing of the NEDC meeting on 17 July, I would let him know.

5. Mr Willis was obviously determined to be conciliatory and not to put the Prime Minister in any sort of difficult public position. If you could let me know in due course whether the Prime Minister has considered chairing the NEDC meeting on 17 July and what his attitude is towards it - and indeed to the general overture from the TUC - I will make a response to Mr Willis.

R.B.

ROBIN BUTLER

16 April 1992

Trades Union Congress

Congress House, Great Russell Street, London WC1B 3LS
 Telephone: 071-636 4030; Fax: 071-636 0632; Telex: 268 328 TUCG

TUC

IN REPLY PLEASE QUOTE
CIRCULAR NO. 30 (1991-92)

TO GENERAL SECRETARIES OF
ALL AFFILIATED UNIONS

Your reference:

If replying please quote our reference:

S/NDW/CM

When telephoning please ask for:

Date:

April 15, 1992

Dear Colleague

AFTER THE GENERAL ELECTION

The result of the General Election will be a great disappointment to those who have a real fear that many serious problems and many people in real need will be neglected. Nevertheless, the electorate has made its decision and that situation must be accepted and recognised in practice.

The trade unions and the TUC are still in business not only in Britain, but in Europe and internationally. We have a responsibility to seek a fair deal in collective bargaining and to promote and defend British manufacturing industry, create public services of high quality that are so important to millions of ordinary people in this country, and to speak up for the vulnerable and underprivileged. The wheels of industry will continue to turn, but we need to see them turn faster and more efficiently to secure our economic future. We have, in short, to seek what is right for Britain.

Whilst prospects for constructive partnership with Government and employers on some issues may well have been set back, we must build these relationships in the common interest. Against the background of massive economic and competition problems, the over-riding priority is to get the country out of recession. An understanding of the structural changes in employment which are part of any sustainable recovery will certainly depend on confidence in an early reversal of the catastrophic rise in unemployment. No Government can do that on its own.

Cont'd/.....

General Secretary: Norman Willis

Deputy General Secretary: John Monks

Assistant General Secretaries:

Roy Jackson and David Lea, OBE

The General Council will seek to work constructively. The greater the difficulties which lie ahead for employment, the greater is the need for the closest involvement of representative trade unions and representatives of employers in reaching a shared understanding of what needs to be done.

Every Government needs to work on behalf of all the people - those who voted for them and those who did not. We need each others help to build a sound foundation for the future. In trying to establish a consensus agenda for the British people the greatest unity in practice must be maintained throughout the trade union Movement.

In the months ahead the General Council will be considering TUC priorities; not only in order to defend ourselves against any attempted disruption of orderly inter-union relationships, or attacks on union organisation and finance, but also to build up and project the role of trade unions in creating a successful, modern economy.

Yours sincerely

NORMAN WILLIS

General Secretary

PRIME MINISTER

TUC MEETING WITH THE GOVERNMENT

Sir Kenneth Couzens saw Mr. Graham and Mr. Marks of the TUC this evening.

The points which the TUC will put to Mr. Walker are similar to those put at their private meeting with him - the intransigence of the Government and the NCB; the solidity of the hard core of the strike; and the "Willis proposition", that there should be a return to work and a time-limited discussion of a new Plan for Coal.

Sir Kenneth Couzens asked why a public meeting had been proposed since the TUC would not be saying anything more than they had said in the private meeting. Graham and Marks indicated that the proposal had been put against the advice of the TUC officials and appeared simply to be a device to get the TUC through the next thirty-six hours or so, because they did not know what else to do.

Further discussion with Graham and Marks elicited that the TUC were thinking of achieving a settlement simply by not driving any of the current points of difference to an issue - "by stopping banging heads against brick walls". Sir Kenneth Couzens pointed out that there were also some "brick walls" on the NCB side, i.e. they must not be asked to withdraw the 6 March closure programme. There should be a return to the procedures which applied before the strike, probably with the enhancement agreed with NACODS. The TUC officials said that this was precisely what they were envisaging.

Sir Kenneth Couzens pointed out that any talks on this sort of basis would have to be between the NCB and the NUM, not between the TUC and the Government. The TUC officials acknowledged this, and said that the most that the TUC would be asking for was an assurance that the Government would not prevent the ~~but~~^{NCB} from undertaking talks on this sort of basis.

STUC Representation

Please check that on our files there are only two examples of meetings with the Scottish TUC (Rawenscraig, and Tunex - see attached)

TF thinks the PM met them on a trip to Scotland on 1 Sept 1982.
Check with GR.

All ~~papers~~ details to be returned to AT
a.s.a.p.

Mark

30/11.



10 DOWNING STREET

Rosen Craig

Andrew

Those present at a meeting with
the PM on Tuesday, 14 December
1982:-

Prime Minister

S/S Scotland

S/S Industry

Mr. J. Langen, Vice Chairman,
Scottish TUC

Mr. J. Milne, General Secretary,
Scottish, TUC

Reverend J. McIndoe, Convenor
Church of Scotland

Father Frank Kennedy,
Roman Catholic Church

Councillor L. McGarry, Strath-
clyde Regional Council

Councillor N. Stobo, Glasgow
District Council

Councillor J. Frew, Motherwell
District Council

Mr. E. Marwick, Glasgow Chamber of
Commerce

Mr. H. Morrison, Chief Executive
Scottish Council.

Meeting with STUC Friday 28 Jan.

: Redundancies at the Times plant in Dundee.

Attendance

s/s Scotland.

Alex Ketcher

Mr Andrew Barr

Mr John Langan

Mr James Milne

} STUC

Mr Gavin Laird (AFLW)

Mr N MacIntosh (AFLX, Times)

Mr J Kidd (" ")

Mr M Scholer (P/S Am)



10 DOWNING STREET

From the Principal Private Secretary

File
cc: Hunt

VB
Ind Pol

201

DHSS

DN

OT Trade

8 September 1982

DM

Prime Minister's Meeting with the Scottish TUC

I enclose a record of the Prime Minister's meeting with the Scottish TUC in Glasgow on Wednesday 1 September. I am also enclosing a copy of a paper which the Scottish TUC prepared for submission to the Prime Minister, but we did not receive this until after the Prime Minister's return from Scotland.

I am copying this letter and enclosure to John Kerr (HM Treasury), Jonathan Spencer (Department of Industry), David Clark (DHSS), Julian West (Department of Energy), John Rhodes (Department of Trade) and Barnaby Shaw (Department of Employment).

F. E. R. BUTLER

A. Muir Russell, Esq.,
Scottish Office.

DSG

W. H. H. H.
SUBJECT
MEETING WITH THE SCOTTISH TRADE UNION CONGRESS AT THE
HOLIDAY INN, GLASGOW, AT 1700 HOURS ON WEDNESDAY 1 SEPTEMBER

Present:

Prime Minister

Mr Alex Fletcher,
Parl. Sec., Scottish Office

Mr Gavin McCrone
Secretary and Chief Economic
Adviser, Scottish Econ. Planning
Department

Mr. F.E.R. Butler

General Council:

Mr. A. Barr - Chairman
(Div. Officer, NUR)

Mr. J. Langan - Vice Chairman
(Nat. Officer, ASTMS)

Mr. H. Wyper - Treasurer
(Reg. Sec., TGWU)

Mr. W. Cowan
(Scottish Div. Officer, USDAW)

Mr. R. Curran
(Scottish Secretary, NUPE)

Mr. T. Dougan
(Reg. Officer, AUEW, Eng. Section)

Mr. W. Dougan
(District Delegate, ASBSBSW)

Mr. C. Gallacher
(District Organisation Officer,
NALGO)

Mr. R. Gillespie
(Branch Sec., SGAT)

Mr. K. Hickson
(Scottish Officer, COHSE)

Mr. J.C. Lewis
(Scottish Divisional Officer,
ISTC)

Mr. D. MacGregor
(Scottish Organiser, GMWU)

Mrs J. McKay
(TGWU)

Mr. A.B. McLuckie
(Scottish Officer, EETPU)

Mr. J. Morrell
(Reg. Secretary, GMWU)

Mr. J.D. Pollock
(Gen. Sec., Educ. Inst. of Scotland)

Mr. E. Reilly
(Scottish Officer, SCPS)

Mr. R.R. Webster
(Sec., Aberdeen Trades Council)

Mrs M. Wilson
(President, Scottish Carpet
Workers' Union)

Miss G Wood
(Scottish Organiser, GMWU)

Scottish TUC

Mr J Milne - Gen. Secretary
Mr. J. Henry - Dep. Gen. Sec.
Mr. D. Harrison - Asst Sec.
Research
Mr. W. Speirs - Asst Secretary

Mr. A. McCally
Mr. R. McDonald

The Prime Minister welcomed the Scottish TUC. She said that she always was willing to accept requests to receive deputations from the English, Scottish or Welsh TUCs, and to hear what they had to say. She invited the Scottish TUC to open the discussion.

The Chairman of the Scottish TUC said that four speakers would lead on behalf of the STUC. He asked Mr. James Milne, General Secretary, to speak first.

Mr. Milne said that the state of the Scottish economy, and particularly the level of unemployment, was a matter of great concern to the Scottish TUC. The malaise of the western world was affecting the UK more severely than any other/^{country}except Belgium. The Government's policy was having a limited effect on inflation, but they had failed to cut taxation as promised and the combination of their policies was having a devastating effect on demand and particularly on investment. More investment was needed in the United Kingdom, but new technology was itself a factor adding to unemployment.

Quoting the figures for Scotland, Mr. Milne said that the average unemployment in 1979 had been 185,000 and in the first seven months of the present year was 363,500: 43% of the unemployed were under 25, ^{and} of them 43% had been unemployed for more than 6 months and 25% had been unemployed for more than a year. In total 100,000 people in Scotland had not had a job for more than a year and many of them would never find a job

/again,

again, and this had a grave impact on their sense of dignity, family life and indeed health and the suicide rate.

The worrying feature of the number of redundancies was the proportion - almost half on Clydeside - which was due to total closures, and this feature made the problem more severe than any other parts of the United Kingdom. These closures had affected new industries as well as old ones, for example, the Invergordon smelter project; but when old and respected firms like Carron went out of business the situation was particularly serious.

Mr. Milne said that the present situation could not last much longer. Oil revenue was being used to maintain the unemployed instead of refurbishing industry. Forecasts of improvement were unjustified, as the CBI and most economic forecasters admitted. But the situation was not immutable. It would be possible to introduce a programme of public investment, for example in electrifying the railways, the manufacture of oil and gas from coal, the development of coal as a chemical foodstuff; and if it was asked where the money was to come from, it could be pointed out that the money had been found for Trident and the Falklands. The STUC particularly regretted the decision that the SHAA could not use £10m. saved from the previous year for adapting houses for old people. New schools and new hospitals were also greatly needed.

Summing up, Mr. Milne said that the mood in Scotland was one of anger that things had got as bad as they had. Reflation was greatly needed: the longer it was delayed, the more painful the period of adjustment would be.

Mr. Lewis (Iron and Steel Trades Federation) said that, after improving their productivity and after accepting a 3½% wage increase in 1981 followed by no increase in 1982, the Scottish steel workers were threatened with being consigned to the dole queue. If that happened, it would be difficult to convince anyone ever again that compliance with management policies would be rewarded. The Secretary of State for Scotland

/had

had said that the Government were committed to maintaining a Scottish steel industry, but there was evidence that the British Steel Corporation were devoted to destroying Scottish steel. He was not ashamed to join with the CBI in urging a programme of investment and infrastructure. The gas gathering pipeline had been a flagrant missed opportunity: Ravenscraig could have produced the steel for it. The Scottish TUC had noted the Prime Minister's remark in the context of John Brown's that contracts should be honoured unless wars intervened. He asked why it was that even in May of this year BSC was importing steel from Argentina.

Mr. Hickson (COHSE) recalled that the dispute in the National Health Service had been in progress for five months. Even the Chairman of the BMA had said that NHS staff had been subsidising the NHS for years. Despite the efforts of the Government to divide the categories of staff in the NHS, a common front had been maintained. The Government said that there was no money for higher pay, but where it was needed it had been made available, for example for senior civil servants, judges and the police. Very little had so far been said from 10 Downing Street: it was time for the Prime Minister to intervene and introduce some flexibility. The unions should not be asked to negotiate under a predetermination of what the result would be.

Referring to the talks about future pay arrangements for the NHS, Mr. Hickson said that this needed a political will on the part of the Government to make some meaningful steps covering comparability and what DHSS Ministers called "absolute values". Mr. Hickson said that he was sure that the Government recognised that there was no political capital in oppressing low paid NHS workers: meaningful negotiations were therefore required both on this year's settlement and on long term arrangements to take NHS outside the arena of confrontation.

/Mr. Langan

Mr. Langan (ASTMS) said that the Prime Minister had the reputation of being a poor listener. As a result her Government's economic policies had been a disaster. Unemployment in many communities was at horrendous levels and the Government was presiding over the decimation of the industrial base. The Daily Record had that day recorded that 100 companies had gone bankrupt in Scotland during the present year: others were only holding on by their fingernails, with massive short-time and work sharing. The social cost of unemployment, particularly among school leavers, would last for a long time. The Scottish TUC and many members of the CBI were in accord in calling for a change in policy and for reflation through public works and reductions in energy costs.

Mr. Langan pointed out that since April 1982 Britain had for the first time in its industrial history been importing more manufactured goods than it had exported. This was the road to ruin. The oil wealth was being squandered, and this was not as a result of economic circumstances: the Government had deliberately embarked on its present course. The people of Scotland had rejected the present Government's policies at the last General Election ^{and} it was almost as if the Government had set out to vindicate all the fears of the Scottish people. That was his proposition: the people of Scotland would be waiting to hear the Prime Minister's answer.

The Prime Minister said that in the short time available she would try to deal with as many possible of the points made. Mr. Milne had talked about a reduction in demand: this was not accurate. If there was inflation, this could only happen because the growth of money was outstripping production. No Government could determine how money injected into the economy was divided between ^{inflation,} imports and productivity: in the last decade out of every £100 injected into the economy, £95 went to inflation and imports, and £5 to production. The increase of import penetration occurred because British consumers did not choose to buy British goods. Every purchase of a foreign car represented an import of foreign steel, and it saddened her to see so many foreign cars even in the steel towns. But the solution was not import controls: exports were still 29% of

British output and if we put up the shutters, other countries would do the same. The only solution was to make our goods competitive, and it was relevant that between 1975 and 1980 unit wage/salary costs in manufacturing had almost doubled in the United Kingdom, whereas they went up by one-third in the United States, one-sixth in Germany and stayed almost flat in Japan. She agreed with Mr. Milne that investment was needed and that labour saving investment added to unemployment in the short run. But unless such investment was taken British industry would not become competitive. There was nothing new in this: during her time in Parliament, there had been substantial reductions in employment in the coal industry, steel and in agriculture; and if British industry did not adapt and become capable of meeting the increasing competition from the developing as well as the developed world, no Government could in the end protect it. She understood the concern expressed by the STUC about the loss of established companies like Carron: but Britain was not the only country facing such problems - another example was the difficulty of AEG in Germany.

The Prime Minister noted that several speakers had referred with approval to the programme advocated by the CBI. The CBI had asked for a reduction in inflation, and inflation was coming down; they had asked for reduced interest rates, and the 5% reduction in interest rates since the previous autumn had saved industry nearly £1½b.; they had asked for a cut in the National Insurance Surcharge, and a cut had become effective in August, saving £640m.; they had asked for help for small businesses, and this was being given; and they had asked for reduction in industrial rates, which depended in the final resort on the ability of local authorities to contain their costs. The Prime Minister shared the concern expressed about the effect of unemployment among young people, and said that the Government were working towards a situation which they hoped to attain by September 1983 in which all school leavers would have the choice of staying on at school, doing a job or undergoing training if they could not get a job.


/The Prime Minister

The Prime Minister said that the Government wanted to keep tax down, but they could not be blamed both for failing to get taxes down and for failing to increase expenditure. Dealing with what Mr. Hickman had said about the National Health Service dispute, she pointed out that expenditure on the NHS had increased from £9.3b. in 1979/80 to £14.5b. in 1982/83. Even before the current offer to the nurses the pay bill had increased from £1.45b. to £2.64b. - an increase of 82% over a period in which inflation had gone up by 30% in terms of movement in the Retail Price Index. This was partly the result of increasing the number of nurses by 39,000 in England and Scotland, but the Government had also honoured the Clegg recommendations and shortened the working week. In the National Health Service in Scotland the total staff had increased from 51,000 in 1961 to 122,000 in 1981, and over the same period the average number of occupied beds had fallen from 53,000 to 48,000. It was true that the number of patients treated had increased by 33% over that period, but this increase was nothing like as big as the number of staff: when every man, woman, and child in the country was already paying £265 per year for the National Health Service/ ^{compared with £170 in 1979/80,} it was legitimate to ask whether they were getting value for money. Above all it had to be remembered that money from the Government meant money from the taxpayer, and there was a limit to what the Government could ask the taxpayer to provide. The offers to the NHS workers compared well with settlements reached with other public service groups. In reply to interventions, the Prime Minister said that she did not propose to intervene in the Health Service dispute, nor did she think it right to refer it to arbitration: the offer was a fair one, and the Government could not leave it to third parties to determine what the taxpayers could afford.

Summing up the Prime Minister said that in the short time available to her she had tried to put some facts to the TUC which she hoped that they would have in mind and pass on to their members.

F.R.B.

23/9



Scottish Trades Union Congress
General Council

Middleton House,
16 Woodlands Terrace,
Glasgow G3 6DF.

With the
General Secretary's Compliments

NOT FOR PUBLICATION BEFORE
6.00 pm on Wednesday
1 September 1982

SCOTTISH TRADES UNION CONGRESS

PAPER TO BE PRESENTED TO THE RT HON MARGARET THATCHER MP,
PRIME MINISTER, AT HER MEETING WITH THE GENERAL COUNCIL OF
THE STUC, ON WEDNESDAY 1 SEPTEMBER 1982

1. The General Council of the STUC has sought this opportunity to meet the Prime Minister to make clear to her our alarm at the relentless cataclysm which has overtaken the Scottish economy and the Scottish people under her Premiership. Scotland now faces a national disaster on a scale which makes earlier crises seem modest in their effects. The General Council is aware that other parts of the UK have suffered as badly, and in some respects worse, but believe that the problems facing Scotland are qualitatively different to, for example, those facing the West Midlands and the North West of England, where unemployment has risen faster. Whilst there have been huge job losses in these areas as large scale redundancies have occurred, the industrial base for the most part has remained intact. When the crisis passes, there will still be industries and factories left to restart and expand. In Scotland, as entire plants have closed, whole industries have disappeared from our industrial map, never to reappear. Government Ministers have sat back and, as in the case of the Invergordon Smelter, uttered cynical and disarming platitudes whilst doing effectively nothing to prevent industries and communities from collapsing.

2. The General Council understand that the Government's strategy has had a perverted logic to it. By deliberately encouraging unemployment to rise at an unprecedented rate, creating a huge pool of unemployment, the Government has attempted to demoralise and intimidate working people. Real wages for the majority have fallen as unemployment has risen, which is no doubt what the Government intended.

Meanwhile, the abolition of exchange controls has allowed investment capital to flood out of the country since the end of 1979, and, as a corollary, fixed capital expenditure in manufacturing, which was climbing slowly to mid 1979, has since collapsed to less than three quarters of its peak '79 level - and shows no serious signs of moving up.

3. The Government's "success" has been to slightly reduce inflation having earlier raised it substantially, and to increase the burden of taxation. The price of this "success" has indeed been a high one in both human and economic terms. Unemployment in Scotland has more than doubled from a 1979 average of 181,500 to an average 363,500 in the first seven months of 1982. Over significant parts of Scotland numbers approaching and sometimes exceeding one in four of the workforce are out of work. Politicians and the media appear anaesthetised by the scale of the horror to what that means at the level of the individual, the community and the economy. A closer look at some of the figures sends a chill of horror up the spine at their implications for the future. Of the 348,831 registered unemployed in Scotland in July, 149,377 - almost 43 per cent - were under 25 years of age. Of these young people, 64,718 - just over 43 per cent - had been on the register for over six months and almost a quarter of them had had no job for over a year. All the pious hopes which Government Ministers have expressed for an upturn in the economy cannot conceal or dissolve the immeasurable human tragedy of nearly 35,000 young Scots wasting their lives for over a year. Neither can the moral exhortations of Government Ministers disguise the fact that 35,000 young people wasting their lives for a year places an ugly question mark over their future. What experience or understanding has the Prime Minister and her Cabinet of the impact of prolonged unemployment, in a community without perceivable hope for the future, on the minds and social development of young people? The General Council urges the Prime Minister to think deeply on this issue before yet again proclaiming "there is no alternative".

4. The human costs of the economic holocaust, which the Prime Minister's Government has brought upon the people of Scotland, are not borne..//

.../borne exclusively by the young. In particular, older workers who have given their lives to building the Scotland we used to enjoy, suffered sharply. Of those over 55 who still bothered to register as unemployed in July, 27,357 - 72.5 per cent of the age group - have been unemployed for over six months and 18,729 - almost half of all over 55 - have been on the register for over one year.

5. On present policies there is no serious sign of improvement in the foreseeable future. Even Ministers of the Government are now talking of entering the next election with 3 million unemployed on the register. The National Institute of Economic and Social Research has summarised things well - "in the spring of last year output stopped falling, but this did not mark a sharp turning point; recession merged into semi-stagnation and, short-term fluctuations apart, the economy appears to have settled down to a level of activity not markedly different from that at the trough of the recession. Treasury Ministers, who argued early in 1981 that an upturn was imminent, have continued to put their faith in a spontaneous recovery that is always, apparently, just around the corner. Similarly, forecasters sympathetic to the medium-term financial strategy, who also forecast a strong natural recovery, have found themselves obliged to postpone the moment of take off. Not only have forecasts been progressively revised down over the past eighteen months, but expectations of a recovery next year are now often found to be dependent upon the assumption of reflationary measures; this is true, for example, of the latest London Business School projection" (National Institute Economic Review, August 1982).

6. A leading firm of London stockbrokers, Simon and Coates, has noted that if the Government's implicit target for the winter wage round of 6 per cent is met, there will be a continuing depression of consumer demand with knock-on effects on industry. They calculate an 11½% increase in real disposable earnings is necessary to boost consumer.../

.../consumer demand and hence lift the economy. In their temperate language they conclude "it is difficult to avoid the conclusion that the assumption of a strong 1983 consumer upswing actually depends on the Government's targets for pay settlements being exceeded..... The conditions therefore seem right for an increase in output next year, with the extent being paradoxically dependent on the level of pay settlements this winter. In the short-term, higher pay settlements will mean more bouyant consumer demand, and a sharper cyclical recovery". (The Economics Analyst, Simon and Coates, September 1982). Health Service workers will note this point.

It appears therefore that a growing body of opinion, even amongst those most sympathetic to the Government, is arguing for a substantial change in direction. Never in our recent economic history has there been a more pressing and urgent case for the Government and its Leader to show qualities of statesmanship: the statesmanship required to accept that a change of course is needed. The trade union movement has consistently argued for the reflation necessary to start turning the economy round and getting the country back to work. The longer the change is delayed the more painful the process will be and the longer the recovery will take.

7. Today in September 1982, the Scottish economy is already devastated. Recent developments in the steel industry now appear to threaten the entire future of yet another of Scotland's basic industries. The future of steel is not primarily threatened by international factors beyond the control of the British Government, although it is readily acknowledged that these are extremely unhelpful. The primary problem is the collapse of demand in the domestic economy as a direct result of the Government's policies. An indication of the extent of this collapse can be gained by looking at the Index of Industrial Production for Scotland for 1979 and 1981. In the second quarter of 1979 shipbuilding, marine engineering and vehicles had an IIP figure of 74. In the fourth quarter of 1981 this had fallen to 61. The collapse in general metal goods over the same period was even sharper from 80 to 53. The disappearance of whole areas of the engineering industry from Scotland, and the huge cuts which have been experienced elsewhere in Britain, lie at the roots of the real problems facing the steel industry. Further, the Government's blind unreasoning antipathy to the nationalised industries, and its attempts to force the BSC onto a Procrustean bed of ideological dogma, have so reduced BSC's capacity that Britain is now the only major steel producer in Europe unable to meet home demand from home output. Britain is already therefore in the situation where the end of the recession must mean that we are a significant net importer of steel, in perpetuity. This is absolutely unacceptable for economic, strategic and security reasons. The question of steel imports is returned to below.

8. Reference has been made to the Government's antipathy to public enterprise, and it is clear that the nearly 400 redundancies planned at Parkhead Forge are a direct result of the philosophy of privatisation applied to steel. It is interesting to note the relationship between employment and capacity in the public and private sectors of the British steel industry during the present Government's term of Office. BSC employment fell from 184,000 in 1979 to 84,800 in 1982, whilst private sector employment over the same period fell from 142,000 to 126,900. BSC's capacity in 1979/80 was 23.3 million tonnes, which fell to 20.7 for 1981/82. Private sector capacity fell from 5.6 million tonnes to 4.8 over the same period. Crudely speaking, this means that in 1979 every BSC employee produced 126,600 tonnes

.../tonnes of steel, which had increased to 244,104 in 1982. In the private sector by comparison, each worker produced 39,440 tonnes in 1979 which had fallen to 37,820 tonnes in 1982. On this basis it would appear that the efficiency of the public sector far outstrips that of the private sector and is growing, compared to a slight decline in the private sector. We respectfully suggest that the Prime Minister might wish to reconsider her ideological predilections in the light of cold reality, in this field as in others.

9. Employment in the steel industry in Scotland has fallen sharply during the present Government's period of Office. From over 20,000 in the mid 70s, the pattern over the past three years has been as follows.

Employment - BSC Scottish Plants 1979-1982

	31/3/79	29/3/80	3/7/82
Ravenscraig/Gartcosh	7,390	7,125	5,140
Dalzell	1,110	1,000	765
Lanarkshire	395		
Hallside	605		
Craigneuk	1,385	1,100	1,050
Glengarnock	290	260	250
Clydebridge	1,150	1,075	725
Clydesdale	2,615	2,425	2,596
	<hr/>	<hr/>	<hr/>
	14,940	12,985	10,526

BSC employment in Scotland has therefore fallen to 70.5% of its 1979 figures, and will fall further to 59.1% if the redundancies now proposed by the BSC are carried through.

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Unemployment in Strathclyde

March 1979	103,674	9.5%
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Steel Communities

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	Total U'd	% Rate	Male %	Total U'd	% Rate	Male %
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(Kilbirnie & Paisley TTWA)	6,705	7.4%	7.7	16,598	17.4	19.9
Cambuslang	952		12.0	2,141	13.7	16.8
Rutherglen	3,287		24.7	7,171	59.3	76.0
Parkhead	5,534		14.2	9,812	23.5	30.6
Easterhouse	4,387		22.7	5,784	23.8	33.2
(Glasgow City TTWA)	50,789	8.8%	10.6	99,978	16.9	21.0
Airdrie	2,354		9.6	4,922	19.2	21.3
Coatbridge	3,015		9.6	5,363	16.5	18.5
Bellshill	1,318		12.0	2,287	15.5	17.0
Motherwell	1,822		7.6	3,422	20.4	22.0
Shotts	614		8.3	1,166	16.2	17.7
Wishaw	2,069		8.4	4,001	15.6	16.9
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In June 1982, of the 10 UBO areas in Strathclyde with the highest unemployment rates in the region, 6 were in areas with significant steel employment (Rutherglen, Easterhouse, Parkhead, Blantyre, Kilbirnie and Motherwell).

The closures and redundancies recently announced at Ravenscraig, Parkhead Forge and Clydebridge, and the further redundancies planned at Ravenscraig, will directly add 2,000 to the dole queues in the East End of Glasgow and North Lanarkshire. The multiplier effect has not yet been calculated in detail, but could be at least a further 1,000 jobs lost in the area.

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15. In the six years from 1970-1975, steel imports into Britain were running at an annual average of 2,877,000 product tonnes per annum. In 1980 and 1981 this had risen to an average of 3,983.500 product tonnes per annum - at a time when the domestic market was declining and the BSC, with the blessing of the Government, was shedding capacity. Of late around two thirds of the imports have come from EEC countries, who have been notably less enthusiastic about reducing capacity than Britain. But if the trend of the first six months of this year is maintained, Britain will in 1982 import about 1.5 million product tonnes of non-EEC steel, just under the annual capacity of Ravenscraig. The Prime Minister may care to note that non-EEC imports this year included significant quantities from Argentina in February ^{March - May} and April. The Government could with great ease act to restrain imports from non-EEC countries and could, with a little ingenuity reduce EEC imports also. This would facilitate the stabilisation of BSC's capacity and begin to reverse the process whereby Britain, alone amongst major European steel producers, is becoming a net importer of steel. For this to be achieved, however, Government action and statesmanship are required, rather than the tired platitudes, whose consequences have brought Britain closer to the ranks of a third rate industrial power.

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22. In short, the STUC General Council is determined to do all in its power to ensure justice for the NHS workers. Trade unionists throughout the country will undoubtedly continue their support for their health service colleagues, through the natural sympathy which they have for fellow workers in a caring service. We call on the Prime Minister to make a direct intervention to settle this dispute, and to ensure that in future health service workers are not forced into the position of having to take industrial action to maintain a civilised standard of living.

DH/EF
WS/TJ
1 September 1982

NOT FOR PUBLICATION BEFORE
6.00 pm on Wednesday
1 September 1982

SCOTTISH TRADES UNION CONGRESS

PAPER TO BE PRESENTED TO THE RT HON MARGARET THATCHER MP,
PRIME MINISTER, AT HER MEETING WITH THE GENERAL COUNCIL OF
THE STUC, ON WEDNESDAY 1 SEPTEMBER 1982

1. The General Council of the STUC has sought this opportunity to meet the Prime Minister to make clear to her our alarm at the relentless cataclysm which has overtaken the Scottish economy and the Scottish people under her Premiership. Scotland now faces a national disaster on a scale which makes earlier crises seem modest in their effects. The General Council is aware that other parts of the UK have suffered as badly, and in some respects worse, but believe that the problems facing Scotland are qualitatively different to, for example, those facing the West Midlands and the North West of England, where unemployment has risen faster. Whilst there have been huge job losses in these areas as large scale redundancies have occurred, the industrial base for the most part has remained intact. When the crisis passes, there will still be industries and factories left to restart and expand. In Scotland, as entire plants have closed, whole industries have disappeared from our industrial map, never to reappear. Government Ministers have sat back and, as in the case of the Invergordon Smelter, uttered cynical and disarming platitudes whilst doing effectively nothing to prevent industries and communities from collapsing.

2. The General Council understand that the Government's strategy has had a perverted logic to it. By deliberately encouraging unemployment to rise at an unprecedented rate, creating a huge pool of unemployment, the Government has attempted to demoralise and intimidate working people. Real wages for the majority have fallen as unemployment has risen, which is no doubt what the Government intended.

Meanwhile, the abolition of exchange controls has allowed investment capital to flood out of the country since the end of 1979, and, as a corollary, fixed capital expenditure in manufacturing, which was climbing slowly to mid 1979, has since collapsed to less than three quarters of its peak '79 level - and shows no serious signs of moving up.

3. The Government's "success" has been to slightly reduce inflation having earlier raised it substantially, and to increase the burden of taxation. The price of this "success" has indeed been a high one in both human and economic terms. Unemployment in Scotland has more than doubled from a 1979 average of 181,500 to an average 363,500 in the first seven months of 1982. Over significant parts of Scotland numbers approaching and sometimes exceeding one in four of the workforce are out of work. Politicians and the media appear anaesthetised by the scale of the horror to what that means at the level of the individual, the community and the economy. A closer look at some of the figures sends a chill of horror up the spine at their implications for the future. Of the 348,831 registered unemployed in Scotland in July, 149,377 - almost 43 per cent - were under 25 years of age. Of these young people, 64,718 - just over 43 per cent - had been on the register for over six months and almost a quarter of them had had no job for over a year. All the pious hopes which Government Ministers have expressed for an upturn in the economy cannot conceal or dissolve the immeasurable human tragedy of nearly 35,000 young Scots wasting their lives for over a year. Neither can the moral exhortations of Government Ministers disguise the fact that 35,000 young people wasting their lives for a year places an ugly question mark over their future. What experience or understanding has the Prime Minister and her Cabinet of the impact of prolonged unemployment, in a community without perceivable hope for the future, on the minds and social development of young people? The General Council urges the Prime Minister to think deeply on this issue before yet again proclaiming "there is no alternative".

4. The human costs of the economic holocaust, which the Prime Minister's Government has brought upon the people of Scotland, are not borne..//

.../borne exclusively by the young. In particular, older workers, who have given their lives to building the Scotland we used to enjoy, suffered sharply. Of those over 55 who still bothered to register as unemployed in July, 27,357 - 72.5 per cent of the age group - have been unemployed for over six months and 18,729 - almost half of all over 55 - have been on the register for over one year.

5. On present policies there is no serious sign of improvement in the foreseeable future. Even Ministers of the Government are now talking of entering the next election with 3 million unemployed on the register. The National Institute of Economic and Social Research has summarised things well - "in the spring of last year output stopped falling, but this did not mark a sharp turning point; recession merged into semi-stagnation and, short-term fluctuations apart, the economy appears to have settled down to a level of activity not markedly different from that at the trough of the recession. Treasury Ministers, who argued early in 1981 that an upturn was imminent, have continued to put their faith in a spontaneous recovery that is always, apparently, just around the corner. Similarly, forecasters sympathetic to the medium-term financial strategy, who also forecast a strong natural recovery, have found themselves obliged to postpone the moment of take off. Not only have forecasts been progressively revised down over the past eighteen months, but expectations of a recovery next year are now often found to be dependent upon the assumption of reflationary measures; this is true, for example, of the latest London Business School projection" (National Institute Economic Review, August 1982).

6. A leading firm of London stockbrokers, Simon and Coates, has noted that if the Government's implicit target for the winter wage round of 6 per cent is met, there will be a continuing depression of consumer demand with knock-on effects on industry. They calculate an 11½% increase in real disposable earnings is necessary to boost consumer.../

.../consumer demand and hence lift the economy. In their temperate language they conclude "it is difficult to avoid the conclusion that the assumption of a strong 1983 consumer upswing actually depends on the Government's targets for pay settlements being exceeded..... The conditions therefore seem right for an increase in output next year, with the extent being paradoxically dependent on the level of pay settlements this winter. In the short-term, higher pay settlements will mean more bouyant consumer demand, and a sharper cyclical recovery". (The Economics Analyst, Simon and Coates, September 1982). Health Service workers will note this point.

It appears therefore that a growing body of opinion, even amongst those most sympathetic to the Government, is arguing for a substantial change in direction. Never in our recent economic history has there been a more pressing and urgent case for the Government and its Leader to show qualities of statesmanship: the statesmanship required to accept that a change of course is needed. The trade union movement has consistently argued for the reflation necessary to start turning the economy round and getting the country back to work. The longer the change is delayed the more painful the process will be and the longer the recovery will take.

7. Today in September 1982, the Scottish economy is already devastated. Recent developments in the steel industry now appear to threaten the entire future of yet another of Scotland's basic industries. The future of steel is not primarily threatened by international factors beyond the control of the British Government, although it is readily acknowledged that these are extremely unhelpful. The primary problem is the collapse of demand in the domestic economy as a direct result of the Government's policies. An indication of the extent of this collapse can be gained by looking at the Index of Industrial Production for Scotland for 1979 and 1981. In the second quarter of 1979 shipbuilding, marine engineering and vehicles had an IIP figure of 74. In the fourth quarter of 1981 this had fallen to 61. The collapse in general metal goods over the same period was even sharper from 80 to 53. The disappearance of whole areas of the engineering industry from Scotland, and the huge cuts which have been experienced elsewhere in Britain, lie at the roots of the real problems facing the steel industry. Further, the Government's blind unreasoning antipathy to the nationalised industries, and its attempts to force the BSC onto a Procrustean bed of ideological dogma, have so reduced BSC's capacity that Britain is now the only major steel producer in Europe unable to meet home demand from home output. Britain is already therefore in the situation where the end of the recession must mean that we are a significant net importer of steel, in perpetuity. This is absolutely unacceptable for economic, strategic and security reasons. The question of steel imports is returned to below.

8. Reference has been made to the Government's antipathy to public enterprise, and it is clear that the nearly 400 redundancies planned at Parkhead Forge are a direct result of the philosophy of privatisation applied to steel. It is interesting to note the relationship between employment and capacity in the public and private sectors of the British steel industry during the present Government's term of Office. BSC employment fell from 184,000 in 1979 to 84,800 in 1982, whilst private sector employment over the same period fell from 142,000 to 126,900. BSC's capacity in 1979/80 was 23.3 million tonnes, which fell to 20.7 for 1981/82. Private sector capacity fell from 5.6 million tonnes to 4.8 over the same period. Crudely speaking, this means that in 1979 every BSC employee produced 126,600 tonnes

.../tonnes of steel, which had increased to 244,104 in 1982. In the private sector by comparison, each worker produced 39,440 tonnes in 1979 which had fallen to 37,820 tonnes in 1982. On this basis it would appear that the efficiency of the public sector far outstrips that of the private sector and is growing, compared to a slight decline in the private sector. We respectfully suggest that the Prime Minister might wish to reconsider her ideological predilections in the light of cold reality, in this field as in others.

9. Employment in the steel industry in Scotland has fallen sharply during the present Government's period of Office. From over 20,000 in the mid 70s, the pattern over the past three years has been as follows.

Employment - BSC Scottish Plants 1979-1982

	31/3/79	29/3/80	3/7/82
Ravenscraig/Gartcosh	7,390	7,125	5,140
Dalzell	1,110	1,000	765
Lanarkshire	395		
Hallside	605		
Craigneuk	1,385	1,100	1,050
Glengarnock	290	260	250
Clydebridge	1,150	1,075	725
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DH/EF
WS/TJ
1 September 1982

SCOTTISH TRADES UNION CONGRESS

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GENERAL SECRETARY

✓ J MILNE

DEPUTY GENERAL SECRETARY

✓ J HENRY

ASSISTANT SECRETARY RESEARCH

✓ D HARRISON

ASSISTANT SECRETARY

✓ W SPEIRS

ADMINISTRATIVE OFFICER

V McDONALD MRS

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file

10 DOWNING STREET

From the Private Secretary

2 September 1981

see. Regional Policy:
Inner Cities Policy: Pt 2.

Dear David

I enclose the record of the Prime Minister's discussion with the TUC about inner city policy, which took place here yesterday.

I am copying this letter and enclosure to John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, HMT) and Richard Dykes (Department of Employment).

Yours ever

Mike Pattison

D.A. Edmonds, Esq.,
Department of the Environment.

SUBJECT

*cc to Mr. Sel. Also to Regional Policy: Pt 2
Inner Cities Problems & Policy.*

*cc to meeting
with
TUC*

NOTE OF A MEETING WITH TUC REPRESENTATIVES ON POLICY
FOR THE INNER CITIES HELD AT 1500 HOURS ON TUESDAY
1 SEPTEMBER AT 10 DOWNING STREET

Present:

Prime Minister	Mr. A.W. Fisher Chairman, TUC General Council
Home Secretary	Mr. D. Basnett Chairman Economic Committee
Secretary of State for the Environment	Mr. G.A. Drain Chairman, Public Services Committee
Secretary of State for Employment	Mr. K. Gill Chairman, Equal Rights Committee
Chief Secretary	Mr. C. Jenkins Chairman, Education Committee
	Mr. W.H. Keys Chairman, Employment Policy and Organisation Committee
	Mr. T. Parry Chairman, Social Insurance and Industrial Welfare Committee
	Mr. L. Murray General Secretary.
	Mr. N.D. Willis Deputy General Secretary.
	Mr. K. Graham Assistant General Secretary.
	Mr. D. Lea Assistant General Secretary.
	Mr. B. Barber Press & Information Officer.
	Mr. B. Callaghan Secretary, Economic Department.
	Mr. R.A. Jackson Secretary, Education Dept.
	Mr. P. Jacques Sec., Social Insurance and Industrial Welfare Department.
	Mr. J. Monks Sec., Organisation and Industrial Relations Department
	Mr. P. Ashby TUC Office

The Prime Minister

The Prime Minister, welcoming the TUC representatives, said that the state of the inner cities was a difficult, serious and deep problem which successive Governments had attempted to tackle with limited success. Mr. Fisher said that the TUC had issued its document early in July. This happened to coincide with the disturbances in several major cities, and therefore focussed national attention on what the TUC saw as a major problem. When meeting the Prime Minister the previous October, the TUC had hinted that the range of problems facing the country could lead to social unrest in some of the cities. These potential effects of going further into recession, with high unemployment, had now come to reality.

Outlining the key points in the TUC document, Mr. Murray said that the TUC claimed no monopoly of concern or wisdom, but hoped that their suggestions would help to concentrate minds as the Government tackled the problem. The events of July were, in a sense, a distorted mirror image of many of the problems in our society. The TUC, through its various committees, had been working on individual aspects, such as occupying the unemployed, and the issues of ethnic minority education. The shock of the riots had emphasised a sense of alienation and polarisation. It would be less than honest to deny that the TUC thought the Government's policies had contributed to a new divisiveness. Unemployment was a major factor. There had been a diminution in respect of law and order. The TUC had always condemned the use of violence, but did not believe that the police were above criticism. In setting out the proposals for improvements, the TUC had suggested a comprehensive programme, emphasising above all the need to provide work. This involved more resources, but, in their view, the social need coincided with sensible economics. The TUC had never simply believed in throwing money at problems. It would be mainly for the Government to respond to their proposals as action lay within the Government's power. They acknowledged that there was an issue of priorities. They did not believe that mere diversion of resources was the answer, and the document made the case for additional resources. The young unemployed were a special problem. The TUC acknowledged that the Government had made moves to help them with the July package, but aspects of

this seemed misconceived - especially tying some of the support to the wage levels of some of the people. There was also growing criticism within the trade union movement on aspects of the Youth Opportunities Programme. An effective training element was essential. Without this, there was a risk that union support would be undermined. The trade union movement was looking for a comprehensive national commitment, involving Government, unions, and employers. The TUC shared much of the approach of the Home Affairs Select Committee on race relations.

The Prime Minister said that she and her colleagues were about to start discussing Mr. Heseltine's report on his visit to Merseyside and would also be looking at Mr. Scarman's report when that was complete. The day's discussion could not pre-empt specific issues to be looked at in that context, but she would ask Mr. Heseltine to outline his impressions from his visit. She emphasised that he had gone to Merseyside as an example of an urban area with major problems. There was no intention to concentrate on one to the exclusion of others. Many areas shared the problems caused by the decline of traditional industries. The Government had offered certain special programmes, for example on education, for some years, but the problem had still not been solved.

Mr. Jenkins commented that the state of inner city schools was continuing to decline. There was a wide disparity in standards between different LEAs. Population migration worsened the inner city position. The TUC felt that unemployment was at the heart of these problems, and would get worse as new technologies threatened office movement. Young people were left in a hopeless situation if they had no prospects of work after receiving their basic education. The Prime Minister commented that Liverpool had at least two modern schools (Netherley and Paddington) with the best equipment, one of which she had opened herself as Education Secretary. Now those schools could not fill their roles.

/The Secretary of State

The Secretary of State for the Environment said that his report to the Prime Minister and colleagues must remain private, and decisions on it would have to be discussed collectively. Whilst he could not therefore press particular ideas that he might have put to colleagues in the present forum, he could set out his impressions from a two and a half week visit to Merseyside, in which he had been free to find out for himself how people had reacted to recent events and what their pre-occupations were. First, the central problem was a national one, of which the inner cities were only a part. In general, the inner cities could not offer the same quality of life as the leafy suburbs. Those in a position to do so inevitably decided to move out. Those left behind all tended therefore to be the unskilled, handicapped, etc. The local authorities were left to provide for these groups, and the problem was thereby compounded as the areas became increasingly unattractive for other sections of the population. Industry generally was now controlled from London. Even the unions themselves were now centrally organised. Central and local Government seemed both massive and distant. He had been accused of cutting subsidies to these areas. But nothing he had seen changed his view. He was seeking to cut current consumption, so that he could press for restored capital programmes from the resources thus released. The previous Government had already cut capital programmes by half. In the inner cities, the level of rates was a further disincentive to new investment decisions in the private sector. The situation was desperate, and it was international. The traditional approaches to these problems would not reverse the decline, but could only delay the process.

Mr. Fisher commented that public expenditure cuts were blamed for the social tension in the inner cities. In those areas there were often very few jobs outside the public sector. It was not possible simply to turn the tap off and expect no reaction. Mr. Heseltine said that, to any policy change there were opposing vested interests, yet many local authorities had achieved the Government's 5.6 per cent target. It was this

kind of effort which could release resources for more creative expenditure. He had not cut the metropolitan counties' share of funds except in reversing the last Government's expansion of spending for London.

The Home Secretary said that it was important to look at the police service in the right perspective. The riots had been a dramatic experience for those in the police and responsible for the police. Other countries had had even worse experiences, but our police service had been facing considerable strains for many years. There was certainly scope for improving police/community relations in some areas, and he would never wish the police to be above criticism but it was too easy to judge the service as a whole on the basis of the instinctive reactions of the rawest recruit. He did not accept that Chief Constables tended to cover up lapses, indeed, in the disciplinary cases which came to him on appeal he often felt that the Chief Constables had been too tough. There would always be mistakes, but in very difficult circumstances. People were quick to criticise, and slow to praise when policing was effective and thoughtful, as - for instance, over the previous weekend in Nottingham. He had heard from the Liverpool police of the provocation they faced - with officers brought from outside to help - during the protest march against the Chief Constable. The Chief Constable/^{had} judged that he should not apply for a ban. The result of the provocation was to polarise relations between the police and much of their community. Co-operation between the Chief Constables and the police authorities was essential. He was trying hard to calm down the unfortunate breakdown on Merseyside. The right sort of police training was essential, and improved recruitment offered the necessary flexibility for this. There was a great deal to be done. He was also anxious to see more coloured policemen, although this was proving difficult both on grounds of educational achievement and because, in the riots, coloured policemen had often been particular targets.

/Mr. Keys

Mr. Keys said that he was shocked at the hostility shown during the riots. The environment in which many young people were living promoted violence. The Government's policies had very much accentuated the differences. The July package of employment measures was far too little. Young people were losing all confidence. YOP was not expanding in sensible ways. The £23.50 allowance was becoming a matter of ridicule. This problem of offering hope for the young was crucial. Government had to tackle it effectively and quickly. In particular, the present recession must come to an end before too long, and this surely provided an opportunity to invest in the young. Serious efforts needed to be taken on the training front before employers joined unions in losing confidence. The Government also had obligations to the old. The TUC were very much in support of the new training initiative, but this was on the understanding that there would be a statutory underpinning, and that the necessary resources would be provided.

The Secretary of State for Employment said that the problems were deep seated, and could not be resolved simply through by throwing a bit of money at unemployment. He welcomed the TUC's constructive attitude to YOP. The Government were by no means complacent. The youth programmes had had to expand at a tremendous rate, which created problems. A better training element would be the best prevention of abuse. In his discussions with the Environment Secretary, they recognised the need to work on what inner city people could do for their own communities. Resources had been significantly increased. It could yet need more, with better use made of them. He did not think that the YOP allowance was subject to ridicule nationally. There were many more people now going into the programme, and there was still a gap between the allowance and supplementary benefit rates. With improved training, the scheme would continue to work. As regards the statutory underpinning of training, statutory boards would continue in some areas. The MSC had indicated to him where voluntary arrangements might be able to take over in others. The Government was well prepared to meet the need and accepted the challenge. He was keeping in touch with the TUC view, and would work closely through MSC.

Taking the discussion back to the wider issues, Mr. Basnett emphasised that the TUC would give top priority to the problems of the inner cities. There was a threat of destabilisation of our society in these areas. He had considerable personal knowledge of Toxteth. It was a long standing slum, with chronic unemployment compounded by the decline of the docks and public service cutbacks. Yet it was an area accustomed to mixed ethnic groups. He saw the major problem as that of the young unemployed black, which required positive discrimination. He shared Mr Heseltine's wish to press ahead with capital programmes. Was there a role for Enterprise Boards, as in Greater London, or should there be more partnership areas? Despite all the problems of education, housing, policing, etc., jobs remained central. Public sector jobs could have a role but new industry was needed. In an area like Toxteth, there was great scope for housing projects, for example.

The Prime Minister commented that, whilst Government held the purse strings, union members and others filled the purse. The country had to earn its living. She would love to hold back current expenditure to provide more capital finance. But she could not increase both, when the Government was already borrowing £10.5b. a year. Union members would resist increased taxes to pay for it. Mr. Murray commented that the unemployed would happily increase the tax take if they could find jobs. The Government seems to be taking a static view of the economy. The TUC were working for a dynamic view, with constructive job creation as the priority. Mr. Jenkins commented that the multiplier effect of Government spending would be important. Mr. Fisher acknowledging existing economic problems said that it was time to decide whether to allow the decline to continue, or whether to take steps to reverse it.

/The General Secretary

The Chief Secretary said that finance was only a part of the problem, given the scale of resources which already had gone into the inner cities without producing a real success. Further finance could only be found from taxation, borrowing, or a re-ordering of priorities. But one way to create some flexibility would be through pay. This was an important factor in which the trade union movement could assist if it was so inclined. If the Government had to look to further taxation or further borrowing, this led into the areas of confidence and inflation. The Government already faced problems in continuing the recent downward trend in inflation. The impact on confidence of any reversal could not be over-emphasised. Substantial new borrowing would have a bad effect. But he hoped that the 27 July package had shown that the Government was not taking an unduly rigid view.

The Prime Minister stressed that the Government shared the TUC's anxiety to solve the problem most especially in relation to the young unemployed and the longer term unemployed. The Government's approach had concentrated on three particular aspects: the stimulation of industries which could provide new jobs, by encouraging new businesses and the provision of venture capital; the extension of the job release scheme, to maximise the chances of people moving into genuine jobs; and, for the young, incentives to employers to take on additional young people. She recognised that there were differences of opinion about the scheme outlined on 27 July. But she believed that there were many small businesses [REDACTED] who would take on youngsters if this cost them considerably less. The Government were searching for valid approaches to these problems, and were ready to consider all constructive suggestions. The TUC represent people with enormous spending power: the more this could be used to "BuyBritish" the more that the situation would improve.

/Mr. Gill

Mr. Gill drew attention to the arithmetic of the damage caused by the riots when seen against the £500m. of new resources called for in the TUC document. He also asked that the Prime Minister personally should take a strong public stand against racialism, and that the Government should take positive action to assist young blacks.

Mr. Parry drew attention to the great demands made on health and personal social services by the tensions and damage of recent events. There was concern in the TUC on this. Cuts in spending on the personal social services and on the rate support grant added to the pressures. The demands would grow.

The Environment Secretary said that he would be happy to pursue with the TUC their ideas on extension of partnership arrangements, the role of the Enterprise Board concept, and other ideas which they wished to discuss. Mr. Prior said that he would be happy to join in such discussions, especially in the context of making best use of the MSC and its resources. The Home Secretary said that he was ready to pursue the particular problems raised by Mr. Gill, and other points which had arisen in discussion. Mr. Murray said that the TUC would be happy to accept these offers.

Mr. Fisher thanked the Prime Minister for receiving the TUC delegation. He and his colleagues would be available at any time to follow up the matters which had been discussed.

1 September 1981

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Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

28 August 1981

Mike Pattison, Esq.,
Private Secretary
10, Downing Street

cc. Regional Policy: Inner Cities Policy: R2

See Mike ✓

You spoke to John Wiggins earlier today
about economic briefing for the Prime
Minister for Tuesday's meeting with the
.... TUC. I attach our brief.

Yours ever,

John Kerr

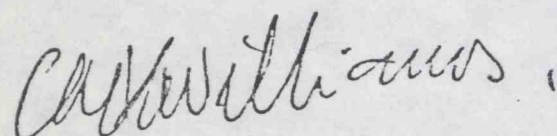
J.O. KERR

PPS/CHANCELLOR

cc PS/Chief Secretary
PS/Financial Secretary
Sir D Wass
Mr Folger
Mr H Davies
Mr Corcoran
Mr Haache
Miss Deyes

NO 10 ECONOMIC BRIEFING

We spoke earlier in the week about the briefing requested by No 10. This is attached. Also attached (but not for copy recipients) is the TUC's "Reconstruction of Britain".



C H K WILLIAMS

EB

28 August 1981

NO 10 BRIEFING ON UK ECONOMY

- A. Current economic situation
- B. Independent forecasts
- C. Productivity
- D. Inflation
- E. Monetary Developments
- F. Public expenditure
- G. Aide Memoire of latest statistics
- H. TUC's 'Reconstruction of Britain'

H M Treasury
28 August 1981

CURRENT ECONOMIC SITUATION

The safest line to take is:-

"Since the turn of the year there has been an accumulation of evidence suggesting that the fall in output is now over. Manufacturing output has stabilised but with some hint of a pick up in the chemicals and metals sectors, engineering orders have increased, private sector housing starts have increased, CBI survey trends have been improving, unemployment has been rising much less rapidly, and short time working is falling.

Indeed the July CBI Survey shows that manufacturing industry now sees the decline in output behind us, with the prospect for some increase in orders and output in the coming months."

It would be wise to avoid being led into generalised remarks about all indicators no longer moving in an unfavourable direction, and all forecasters expecting recovery in the near future.

Background note on latest statistics

1. FSBR growth 1H 1982 on 1H 1981 of about 1 per cent in GDP and about $1\frac{3}{4}$ per cent for manufacturing.

2. Evidence suggesting that we are close to the trough of the recession comprises:-

A. Manufacturing

(i) Index of manufacturing production shows a stabilisation of output during 1981. When set against an underlying decline of $\frac{1}{2}$ per cent pa over the last cycle (1973-79) it suggests recessionary downswing is over. Between 1Q and 2Q 1981 chemicals and metals (often regarded as lead sectors) output rose by 3 and 6 per cent respectively.

(ii) The July CBI survey shows

(a) a small positive net balance of firms expecting increased orders and output over the next four months

(b) an improved level of optimism

(c) optimism and prospects are stronger for exports.

(iii) Sharp fall in short time working; hours lost more than halved between January and June (from $8\frac{1}{2}$ m to $3\frac{1}{2}$ m per week. Overtime hours stabilising at about $8\frac{1}{2}$ -9 m per week).

(iv) Employment this year declining about $\frac{1}{3}$ less rapidly than 2H 1980. (Just under 50,000 pm sa compared with 77,000 pm sa in 2H 1980.)

(v) Monthly average of engineering orders in Jan-May nearly 15 per cent up on 2H 1980.

B. Total output

(i) GDP(O). Latest assessment of total output shows that the rate of decline in the first half of this year was much less than that experienced during 1980. (Output in the first half fell by around $\frac{1}{2}$ per cent per quarter compared with an average fall of $1\frac{1}{2}$ per cent a quarter in 1980.)

(ii) CSO cyclical indicators suggest that economy is near or at the bottom of the recession.

(a) Coincident indicator has been flat since November 1980

(b) Longer leading ^{indicator} predicts turn in December 1980 (but within June 1980 - August 1981 range)

(c) Shorter leading indicator predicts turn in April 1981 (but within November 1980 - November 1981 range)

(iii) Unemployment - There has been a marked easing in the rate of increase in adult unemployment. 3 months to August $\frac{1}{2}$ that of 1980 Q4 (37,000 compared with 115,000 per month). Flow on to register is down whilst flow off has increased. Number of redundancies has eased.

(iv) Average monthly private sector housing starts in 1981 45 per cent up on 2H 1980.

Line to take and background note on outside forecasts

Factual

(i) Output

(a) Only LBS and Phillips & Drew see an increase in 2H 1981 continuing into 1982.

(b) Most of the major forecasters - including CBI, ITEM, CEPG and arguably OECD - see a further fall in output in the second half of this year.

(ii) Most major forecasters expect unemployment to continue rising, albeit at a slower rate, over next few years.

(iii) Consensus is that year on year inflation will remain above 10 per cent by 1981 Q4 but may fall to single figures sometime in 1982.

Line to take

(i) It is best not to seek support from independent forecasters. The consensus outlook has been deteriorating during the course of this year. To the extent that there is a "consensus" of outside forecast views, it is that output will remain broadly flat up to the end of next year.

(ii) Should the views of independent forecasters be raised, the following defensive points can be made

(a) As the LBS have recently said "there is an unusually wide divergence of views amongst the major forecasters."

(b) we have never claimed that recovery would be rapid (ref FSBR forecast)

(c) most forecasters see some recovery between 1981 and 1982.

PRODUCTIVITY

Difficult to differentiate between cyclical and underlying changes. Whilst hopeful pointers (and anecdotal evidence) can be noted, it is wise to be cautious at this stage.

(i) Aggregate data on manufacturing productivity

(a) Official figures for output/head show a turnaround in 1Q 1981 (but productivity at a very low level)

(b) NIESR (May 1981) suggest that output per operative hour increased slightly at turn of the year

(c) BEQB gives an increase of $2\frac{1}{2}$ per cent in output per man-hour, in 1Q 1981 compared with year earlier. But figure buoyed up by steel strike and is little different from 1979. Productivity appears to have performed better than in most other major industrial countries.

(ii) Plant and machinery investment (This is perhaps of more direct relevance to productivity than total capital formation)

"Indeed, investment in plant and machinery during the current recession has so far been holding up remarkably well. Last year's figure, even after adjusting for inflation, was easily an all-time record, almost 5% higher than in 1979, which in turn was 7% up on 1978. And although some slight fall is likely this year, before it resumes its rising trend in 1982, there is no evidence so far to suggest that the fall will be any greater than the dip that occurred during the previous recession". Financial Secretary, 9 July 1981, to the Engineering Employers Federation (Commercial and Economic Committee).

INFLATION

Prices

July year on year RPI increase 10.9 per cent. FSNB forecast is 10 per cent in year to 4Q 1981 and 8 per cent in year to 2Q 1982.

NB. August RPI to be published on September 18 is likely to show an increase in the year on year rate because of unusually small increase in August 1980.

Wholesale output prices up $9\frac{1}{2}$ per cent in year to July. Wholesale input prices up $15\frac{1}{2}$ in July.

(i) Will forecast 10 per cent rate RPIⁱⁿ 4th Quarter 1981 be achieved?

It is too early to say how the Budget forecast of a 10 per cent increase in the RPI will turn out. The fall in the exchange rate since the early part of the year has made the task more difficult, but not impossible. But the year on year rate has fallen steadily this year, and recent monthly increases in May, June and July have been small.

(ii) Prospect for single-figure inflation?

Budget forecast predicted single figure inflation in the first half of 1982. Too early to say what output will be. Fall in exchange rate makes it more difficult.

Pay

Underlying monthly increase in average earnings in pay round just ended about half that in last pay round. Average level of settlements in economy (just) in single figures.

MONETARY DEVELOPMENTS

Monetary statistics have been distorted by the effects of the Civil Service dispute. Recorded £M3 growth over the first five months of the current target period is 6.9% (seasonally adjusted), equivalent to an annual rate of increase of 17.3%. It is difficult to estimate the extent of the distortion, but it is unlikely that the underlying (net of strike effects) growth of £M3 has been outside of the target range of 6-10% at an annual rate.

(i) What are the prospects for recovery from the strike?

Recovery has already begun, following settlement of the dispute at the end of July, but is unlikely to be complete for some months, during which period recorded monetary growth will still reflect strike effects.

(ii) Effect of the new monetary control arrangements?

New methods of monetary control inaugurated on 20 August have no implications for the levels of interest rates or the overall orientation of monetary policy. The new methods will allow market forces a greater role in the determination of short-term interest rates making rates more responsive to market conditions.

(iii) Prospects for interest rates?

Interest rates have come down from their peak last year and are now lower than those in most of our competitors. Further progress in reducing inflation under the MTFs will in due course allow interest rates to be lower still but we cannot isolate ourselves from the effects of the higher interest rates prevailing elsewhere, notably in the US.

PUBLIC EXPENDITURE

(i) Public spending 1981-82 and its implications

Level of spending projected in White Paper (Cmd 7841) higher than Government would wish. Even so, public expenditure in 1981-82 will be nearly 5 per cent below volume planned by previous Government. Recession has created pressure to increase spending; this has been taken into account in the plans. But Government is committed to restraining public spending, and is looking at its level in the annual review now going on. This involves looking at implications for Government's monetary and fiscal policies.

(ii) Further cuts - a figure in mind?

We have made it clear we consider planned levels of spending too high in relation to our financial and monetary objectives and that in the course of the survey we will give careful consideration to scope for further cuts. Scale and incidence of any reductions will be considered and decided in due time and it would be premature to speculate now about the outcome.

(iii) Can present plans be achieved? Spending out of control?

The recession has brought considerable pressure to increase spending. This was taken into account in our plans.

(iv) Increase capital spending

Need is to reduce total spending. Balance between current and capital spending is one of points we are looking at in the annual review of expenditure.

(v) Raise the proportion of public investment within the total?

Government is considering this carefully in the forthcoming annual survey. But not clear that the case has been adequately made out. Priorities must be decided primarily in terms of services - to which current spending may be no less important than capital. Investment projects must offer prospect of economic return.

PRESENT SITUATION

GDP output estimate fell $\frac{1}{2}$ per cent in Q2 1981 following a similar fall in Q1 and an average quarterly fall of $1\frac{1}{2}$ per cent in 1980. Industrial output and manufacturing output have been broadly flat over the first half of 1981.

Consumers' expenditure fell back in Q2 1981 from the high level in Q1 returning to the average level of 1981. Retail sales provisionally fell back in July. Volume of visible exports fell 2 per cent in the three months to February 1981 after being broadly flat since mid-1980. Volume of visible imports fell 2 per cent in the three months to February 1981 continuing the downward trend though suggesting some slowing down in the rate of decline. Manufacturing investment (excluding assets leased from the service sector) fell 1 per cent in Q2 1981. Distributive and service industry investment (including shipping and leasing) rose 1 per cent in Q2 1981. DI investment intentions survey (conducted in April/May) suggests a fall in manufacturing investment after allowing for leasing of 11 to 14 per cent in 1981 with some recovery in 1982; distributive and service industries investment (including shipping) expected to rise by less than 5 per cent in both 1981 and 1982. Manufacturers', wholesalers' and retail stocks dropped by £0.2 bn (at 1975 prices) in Q2 1981 compared with destocking of £0.4 bn in Q1 and £1.9 bn in 1980 as a whole.

Unemployment (UK, seasonally adjusted excluding school-leavers) was 2,626,000 (10.9 per cent) at August count, up 44,000 on July. Vacancies rose to 98,000 in August.

Wholesale input prices (fuel and materials) rose $1\frac{1}{4}$ per cent in July to a level $15\frac{1}{2}$ per cent above a year earlier; wholesale output prices rose $\frac{1}{2}$ per cent and are $9\frac{1}{2}$ per cent above a year ago. Year-on-year RPI increase was 10.9 per cent in July. Year-on-year increase in average earnings was 11.8 per cent in June. RPDI fell by $1\frac{1}{2}$ per cent in Q1 1981 after rising by 17.5 per cent over the 3 years 1977 to 1980. The savings ratio fell 2 per cent to 14 per cent in Q1 1981.

PSBR £6.8 bn in the first quarter of 1981/82 and CGBR £9.4 bn in the first 4 months of 1981/82 but both distorted upwards by the civil service dispute.

Sterling M3 increased by 2.1 per cent in July but distorted by the civil service dispute; the underlying increase since February is estimated to be within the 6-10 per cent p.a. target range.

Visible trade, which has been in surplus since mid-1980, showed a surplus of about £1.1 bn in the first two months of 1981. Invisibles surplus in Q1 1981 was nearly £1 bn. Reserves at end-July \$24.6 bn. At the close on 27 August the sterling exchange rate was \$1.8415 and the effective rate was 91.4.

MACRO-ECONOMIC ASPECTS OF TUC'S "THE RECONSTRUCTION OF BRITAIN"
(20 AUGUST)

Central proposal

- 5 year £24 billion programme of public sector capital investment.
- investment to rise £3 billion in 1982-83 building up to some £7 billion in 1986-87 (to restore 1975-76 real level).
- $\frac{1}{2}$ total programme allocated to housing.
- $\frac{1}{2}$ million jobs created.

Justification of borrowing

TUC argue that:-

- borrowing for investment is sound (companies do it).
- high PSBR does not mean high interest rates (1980-81 PSBR overshoot associated with falling rates).
- 'no firm evidence' of link between money supply and inflation.
- 'little evidence' that level of demand important for inflation.

Comment

(i) In combination TUC's justification virtually assumes away any financing problems and inflation and interest rate implications.

(ii) TUC assume large multiplier effects (2) from additional public sector capital expenditure. TCSC report on NI financing concluded that crowding out could be up to 40 per cent. The thrust and implication of HMT evidence was that this ignored effect on price level and interest rates - both crucial macro-economic objectives.

(iii) Last Budget could only reduce interest rates because of complementary fiscal stance.

(iv) Money supply influence on inflation recognised by most Governments (OECD June Ministerial Communique, and July Ottawa Summit Declaration).

(v) Post war experience increasingly demonstrated the importance of demand on inflation, (an increasing proportion of increasing money expenditure went into price inflation rather than real growth).



MF

10 DOWNING STREET

PRIME MINISTER

You will have seen the publicity surrounding the launch of the TUC's statement on "The Reconstruction of Britain".

dated 24/8

It was announced that the document was being sent to selected Ministers. This does not appear to have included you, but we have now obtained a copy from the Treasury. We shall be getting briefing on this before your inner cities meeting with the TUC next Tuesday, but you may like to have a glance at this copy now.

MF

27 August 1981

PRIME MINISTER

*Weekend of our
plans
not*

You might like to have an early look through the briefing for your meeting with the TUC delegation on inner cities policy next Tuesday.

The main brief is short. I think this is right. The exercise will essentially be a listening one - especially bearing in mind the precedent of your previous TUC meetings. To the extent that any detailed discussion becomes necessary, Departmental Ministers will be present to pursue points.

Is there any other material which you would wish us to commission?

MA

27 August 1981



2 MARSHAM STREET
LONDON SW1P 3EB

My ref:

Your ref:

27 August 1981

*cc. Regional Policy;
Inner cities Policy: PC2.*

Dear Mike

TUC MEETING ON 1 SEPTEMBER WITH PRIME MINISTER

/ As requested in your letter of 17 August, I
attach briefing for this meeting.

The Prime Minister was anxious that statistics of expenditure for the major conurbations should be provided on a basis comparable to that used in the Secretary of State's report on Merseyside. In the event, this has not proved wholly possible (see Annex 3) owing to difficulties in obtaining figures for DHSS benefits and unemployment benefit.

Copies go to the recipients of your letter of 17 August.

Yours ever

Jeff Channing

J P CHANNING
Private Secretary

Mike Pattison Esq, No 10

COVER BRIEF FOR PRIME MINISTER

The TUC (list of delegation at Annex 1) have asked to see the Prime Minister to discuss the economic and social problems of the inner cities, and their proposals for future action, set out in their document "Regenerating Inner Cities" published in early July. (Summary and critique of this at Annex 2).

The delegation might refer to a much wider TUC document "The Reconstruction of Britain" published on 20 August, which proposed, among other things, an inner cities programme costing an extra £2,000m over the next 5 years. The Chief Secretary is being briefed on this macro package.

(1) 2. The Prime Minister might wish to open by emphasising the Government's concern over inner city problems. Ministers will soon be considering Mr Heseltine's Report following his Merseyside visit, and any points made by the TUC can be taken account of in these discussions. There is little point in being drawn on Press speculation about the contents of Mr Heseltine's Report. In addition, the Government are awaiting the Report of the Scarman Inquiry, and have recently received the recommendations of the Select Committee on Race Relations.

(2) 3. The problems facing the inner cities are complex, deep rooted, and of long standing - they have not suddenly emerged under the present Government. Very considerable sums of ^{public} money already flow to the main conurbations - some £2 billion to the main conurbations, and about 4 times this amount to London. The Government accept that a strategic solution to inner city problems must involve the economic regeneration and the provision of a viable economic base. The public sector has a part to play, but it cannot do this on its own, which is why it is essential to encourage the private sector. Without anticipating Scarman, it is obvious that there is a need to improve police community relations in some inner city areas: all responsible members of the community must be concerned that law and order be preserved.

L2b. to the main conurbations

4. The Prime Minister could invite the TUC to indicate the key points, as they see them, in their Report. Much of the factual material in the Report is non-contentious, and paints a stark picture. No one doubts the scale of the problems. The task is to find a way ahead compatible with the resources available. Simply spending public money at large is not the answer. In particular:-

- a. Exactly how do the TUC propose any additional resources, if these could be found, should be targeted?
- b. What does the TUC think the Unions themselves can do about the problem - their document appears to see the Union role as mainly consisting of the development ^{of} equal opportunities, and the provision of TUC Advice Centres for the Unemployed.

5. Also attached to this brief are:-

Annex 3 : The figures the PM requested for public expenditure in the 7 major conurbations.

Annex 4 : Mr Heseltine's Report to the Prime Minister of his Merseyside visit. (With No 10 already)

Annex 5 : The TUC full Report "Regenerating our Inner Cities".

ICD
DOE
27/8.

Meeting with the Prime Minister, Tuesday September 1 1981TUC Representatives

✓ Mr. A.W. Fisher	Chairman, TUC General Council
Mr. D. Basnett	Chairman, Economic Committee
Mr. G.A. Drain	Chairman, Public Services Committee
Mr. K. Gill	Chairman, Equal Rights Committee
Mr. C. Jenkins	Chairman, Education Committee
Mr. W.H. Keys	Chairman, Employment Policy and Organisation Committee
Mr. T. Parry	Chairman, Social Insurance and Industrial Welfare Committee
Mr. L. Murray	General Secretary
Mr. N.D. Willis	Deputy General Secretary
Mr. K. Graham	Assistant General Secretary
Mr. D. Lea	Assistant General Secretary
Mr. B. Barber	Press & Information Officer
Mr. B. Callaghan	Secretary Economic Department
Mr. R.A. Jackson	Secretary, Education Department
Mr. P. Jacques	Secretary Social Insurance and Industrial Welfare Department
Mr. J. Monks	Secretary Organisation and Industrial Relations Department
Mr. P. Ashby	T.U.C. Office

TUC POLICY STATEMENT: "REGENERATING OUR INNER CITIES"

SUMMARY OF MAIN PROPOSALS

Urban Programme

1. The Urban Programme should be expanded including special allocations from main spending programmes. £700 million in the first year, substantially more in future years.

The Government are considering the level of funding of the Urban Programme in the light of Mr Heseltine's report to the Prime Minister. But it will be necessary to consider the question of resources in the context of the Government's overall economic strategy. The Prime Minister might ask the TUC where the extra money they request should come from.

The TUC may wish to broaden discussion on the issues raised in their document "The Reconstruction of Britain" published on 20 August. It may be best not to be drawn on this, but to concentrate on the specifics of inner city policy.

"The Reconstruction of Britain"^{be} reiterates TUC views that large-scale reflation would not inflationary and would yield substantial employment benefits. The Chief Secretary will be briefed on the proposals and arguments contained in the TUC document.

2. There should be more partnerships, and greater involvement of local trade unions and other interest groups, including representatives of ethnic minorities and voluntary groups.

The number of Partnerships was one of the matters considered by the Government in their review of inner city policy in 1980, and in his statement to the Commons on 9 February this year, Mr Heseltine announced that there would be no changes. It is a matter of concentrating available resources in the most needy areas, clearly identified by the deprivation indicators. Areas which do not have partnership status can still secure urban aid. Neither this Government nor the last one consider it appropriate to widen the membership of Partnership Committees. Too large a membership of the Partnership Committee would detract from the efficiency of Partnership machinery. But partnerships can and do consult widely.

- 3/ Cuts in block grant must be reversed

Grant Related Expenditure Assessments (GRE's - ie needs assessments) under the new block grant system are generally a good deal higher than the average in inner city areas reflecting high spending needs.

RSG as a whole was lower in real terms in 1981-82, reflecting the planned 3% reduction in local government spending, and a 1% cut in the grant percentage. But the metropolitan authorities outside London are getting a larger share of a grant than in previous years. It is true that London's share of grant has gone down, but this is because the Government felt it right to reverse in part the major shift of grant to London under the previous administration - a shift that kept London rate rises well below the national average between 1975 and 1980. And since the grant settlement London authorities have lost further grant because of their excessive spending levels.

RSG decisions for 1982/83 have yet to be taken. Ministers are very well aware of the inner city needs and have had discussions with the AMA about the grant settlement.

Industry and Employment

4. The emphasis in Government help to industry should shift from subsidizing private investment to direct involvement of local authorities in job creation.

The Government are interested in stimulating whatever job opportunities they can in the inner cities. The public sector has a **role** to play. But in the long term, the Government is committed to the view that

only the private sector can provide the opportunities required for a viable economic base. So they must be encouraged whenever possible.

5. Local authorities should be empowered to give subsidies to employers who create extra jobs

The Inner Urban Areas Act 1978 already permits local authorities in certain designated districts to make grants and loans to firms in inner city areas.

The Secretary of State for the Environment last year set up a joint group of Government and local authority association officials to review the means and powers currently employed by local authorities to foster industry and commerce. The Group was asked to report on the most appropriate forms of action for local authorities and on any implications for legislation. The Secretary of State is now considering the review Group's report and an announcement will be made as soon as possible.

6. Partnership Authorities should draw up an employment strategy, covering at least 5 years and including direct financing for new and existing businesses.

Unemployment is certainly high in most Inner city areas. But it is misleading to generalise. It is far more of a problem in some (eg Liverpool) than others

(eg Manchester). Nor can it be assumed that new jobs created in inner city blackspots will necessarily go to people living there. This is simply because there is considerable commuting within inner cities. Better qualified workers might commute in from neighbouring areas and the locals themselves commute to jobs available elsewhere.

Inner City Partnerships already have a strategic planning system. Employment is covered in each strategic plan and many partnerships develop this part of their plans through special employment working parties. The priority (and hence finance) accorded to job creation varies according to the area's unemployment problem.

7. Statutory training boards should be retained and strengthened and greater training opportunities should be provided for inner city residents.

ITBs will be kept where this is essential to meet important training needs. But they will be abolished where the Government think their achievements will be maintained on a voluntary basis.

The TUC will be aware that the Secretary of State for Employment has asked for further comments on the MSC consultative document "A New Training Initiative" by the end of September, so that an announcement can be made early in the next session.

Education

8.

There should be greater public expenditure on education in inner city areas - especially nursery education and basic education for adults.

Rate Support Grant (RSG) is the main source of Government support for education in the inner cities, as elsewhere, although the Urban Programme and Section 11 grants (which as administered by the Home Office) also have a part to play. The distribution of RSG takes account of the fact that some local authorities have to spend more than others on certain types of educational provision, and also makes allowances for the management problems associated with falling school rolls. The question of further adjusting the education GREs to help inner city areas is now under discussion with the local authority associations.

Seventy per cent of nursery schools and classes are in urban and inner city areas and they make a significant contribution to the needs of the children in the areas. Many receive funding from the Urban Programme.

There is no evidence that nursery education is collapsing. Indeed the January 1980 figures show a small increase and the provisional 1981 ones

indicate a broadly stable situation.

9.

More attention should be paid to the special educational needs of minority ethnic groups, and all school children should be educated for life in a multi-racial society

The Government attaches great importance to ensuring that everyone has the same range of opportunities and choices in education and believes that the service must do its best to meet the special needs of ethnic minorities.

The Committee of Inquiry's has reported on West Indian children. Lord Swann and his colleagues will be sitting for another 2 years to consider the educational needs of all children from ethnic minority groups, and the Government looks forward with interest to the presentation of their final report. However, there is much in the first report which deserves early attention, and the Government will be consulting widely on the implications of its recommendations for the education service. The Select Committees Report is also relevant. The TUC's detailed views will be welcomed as part of the consultation process.

The Government has made it clear, most recently in the document "The School Curriculum" that what is taught in schools, and the way it is

taught, ought to reflect fundamental values in our society, and the multicultural nature of that society. The Committee of Inquiry itself has claimed that, on the whole, it is a re-ordering of priorities which is required, rather than overall increases in public expenditure and has put the emphasis on the "psychological" rather than "financial" costs of persuading teachers, pupils and parents to re-appraise their attitudes.

Health

10. Additional finance should be provided for the NHS. In sharing its money out, NHS should give greater recognition to health care problems in inner cities - especially inner London

Under this Government expenditure on the National Health Service has grown in terms by about 2% per annum.

The TUC may mention the Report, produced by Sir Douglas Black, the DHSS Chief Scientist, under a remit given to him by the previous Government. This brings together a mass of information showing the inequalities in health in Britain today. No one denies such inequalities exist. Setting up a national health service has not reduced them. The Black Report proposed that the problem be tackled by massive additional spending -

they estimated at least £2000 million a year. We think the full up-to-date cost might be as much as £4000 million. The Government could not contemplate increased spending of this order, particularly at the present time when the first priority must be to put the economy right.

The report does not explain the fundamental causes of why some people and some groups, and some regions seem to suffer worse health than others. It says that health inequalities seem to be linked with class structure. But the report does not tell us how the class structure actually causes inequalities in health. The extremely expensive proposals in the report must therefore be regarded as speculative. Until we know more about the causes of health inequalities it is difficult to know how to grapple with the problem. Consideration is being given to the need for further research.

In terms of hospital beds, the inner city areas are, if anything, over-provided - since they contain many hospitals provided in the central areas of our conurbations.

11.

There should be more use of health centres and community nursing in inner city areas.

The Department of Health and Social Security published on 16 July a consultative document

'Care in the Community' which invites comments on ways of developing the joint finance scheme to enable people who do not need to be in hospital to be discharged to care in the community. Copies were sent to the staff side of the NHS General Whitley Council.

This is an area in which we are determined to make progress and we hope the consultation will result in the emergence of generally acceptable solutions. [NB The suggestions are for transferring resources from hospital care generally, and not specifically teaching and acute services as the TUC suggest].

As a further contribution to the debate on community care we shall shortly be publishing the departmental study on 'Community Care' which was summarised in 'Care in Action' and inviting comments.

Transport

12.

There should be more central Government financial support for inner city transport - eg fare reductions, low flat fare experiments, concessionary fares for elderly and disabled.

The TUC paper suggests that better and cheaper public transport would help unemployed people in inner cities to find work further afield.

There is no evidence that either the lack of public transport or fare levels is a significant factor in preventing the unemployed finding work. Indeed the policy of heavy subsidy and low fares which the TUC recommends would be more likely, by making increased rates necessary, to have an adverse effect on local employment.

For example, South Yorkshire's policy of keeping fares to very low levels which the TUC recommend as "The way out of the spiral of decline in public transport", (para 5.19) has achieved an increase in patronage of barely 1% (now itself being reversed). The cost is already a £14m extra rates burden on local industry and commerce, adding £7 to the cost of every tonne of steel produced in the local BSC works. Sheffield Chamber of Commerce have estimated that for every £5,000 increase in the rates, one more job will be lost.

Such blanket subsidy can only be at the expense of transport schemes designed to benefit the inner cities, for example by improving road access in decaying industrial areas. The available resources should be devoted to projects which can give an economic return and are directly relevant to the health of local industry and to employment prospects, not to indiscriminate and wasteful expenditure unrelated to real demand.

Housing

13. 50,000 new homes should be built, and 125,000 houses renovated, in the inner cities, as a first step towards a long term housing programme.

It is not for the Government to set targets for new housebuilding: this is a matter for local authorities, who are best placed to determine the optimum use of resources in their areas. However, the moratorium on council house building which the TUC document mentions (and which was imposed so as to prevent local authority expenditure limits being breached) was lifted on 1 April 1981.

The renovation of housing in inner city areas forms an important component in many Partnership programmes. In addition to the existing system of General Improvement Areas and Housing Action Areas, the Partnerships are experimenting with new forms of grant-aid for housing improvements.

Policing

- 14 Government should review the role of community policing, and increase the element of training concerned with the ethnic minorities.

The extension of community policing schemes is a matter for the operational judgement of individual chief officers. They are well aware that they have the Government's full support

in taking any measure designed to strengthen and maintain links between the police and all sections of the community. With the increase in recruiting following the Edmund Davies pay award, chief officers are better placed than ever before to return men to the beat.

All recruits to the police force have training sessions on police and community and ethnic relations. The Police Staff College includes racial issues on their syllabus. No doubt *Scorman* will comment on this area.

15.

Government should intensify efforts to recruit ethnic minorities into police forces.

The Government would welcome more coloured people officers. There has been some improvement. In 1971 there were 47 coloured officers in England and Wales; there are now more than 300, of whom over 100 are in the Metropolitan Police. Considerable efforts have been made nationally and locally to attract more ethnic minority recruits. For example, special national advertising campaigns were held in the ethnic minority press in 1979 and 1980-81. The Select Committee has made recommendations there which are being considered.

Equal Opportunities

16. Public sector should develop equal opportunities policies for their employees, and trades unions should aim for the establishment of such policies in all the work places where they have members

The Government shares the concern expressed by the TUC that there should be equality of opportunity in all areas of our society for all citizens regardless of their racial background. Access to employment, housing, education and all other services and facilities whether provided by the Government, Local authorities or the private sector should be available to all according to the same criteria. The Race Relations Act 1976 outlaws discrimination on racial grounds and provides legal remedies for those who have experienced racial discrimination. Government has preserved the GRE's budget in real terms.

The problems faced by members of the ethnic minority communities figure largely in any assessment of inner-city areas. The majority of members of those communities live in the inner cities. Many young members of the ethnic minorities were involved in the disturbances that took place earlier this year. The Government takes seriously the problems facing these people. It is expected that the report of Lord Scarman's inquiry into the Brixton riots will deal with the factors underlying

these disturbances. The Government will study that report with great care. The Government is also looking very carefully at the recommendations of the Home Affairs Committee in their recent report on racial disadvantage which dealt, among other things, with ethnic monitoring by central and local government. The question of the GRE Codes of Practice will also be considered in this context. The Government will consider the recommendations made by the TUC against that background.

Public Expenditure in the Metropolitan
Counties - 1981/82

Government Departments

£m (outturn prices)

	<u>Merseyside</u>	<u>Greater Manchester</u>	<u>Tyne & Wear</u>	<u>S. Yorks</u>	<u>W. Yorks</u>	<u>W. Midlands</u>	<u>GLC</u>
<u>Department of the Environment</u>							
Capital							
Housing Corporation	35	45	25	25	25	45	120
New Towns	18	-	16.5	-	-	-	-
Capital and Current							
Merseyside Development Corporation	17	-	-	-	-	-	-
Urban Programme	21	25	23	4	7	21	60
Sports Council	0.28	0.20	0.09	0.02	0.15	0.83	0.28
<u>Property Services Agency</u>							
	20	19	10	10	16	20	260
<u>Department of Transport</u>							
Capital - Trunk Roads	3	19.9	-	-	-	-	5.0
Current - Mersey Docks & Harbour Co. via Ports (Financial Assistance) Act 1981	14	-	-	-	-	-	-
<u>Department of Education and Science</u>							
Capital and Current							
University Grants Committee	30	67	25	25	46	43	218
Arts Council and other Arts grants	1	3.8	2.6	0.8	2.5	3.0	27.4
Museums & Libraries	-	-	-	-	-	-	86.8
<u>Department of Health & Social Services</u>							
Capital							
National Health Service (via Area Health Authority)	16.5	14.7	8.8	7.1	8.4	11.7	29.0
Current							
National Health Service (via Area Health Authority)	272	398.1	174.6	196.0	243.6	389.5	1,454.2

	<u>Merseyside</u>	<u>Greater Manchester</u>	<u>Tyne & Wear</u>	<u>S. Yorks</u>	<u>W. Yorks</u>	<u>W. Midlands</u>	<u>GLC</u>
<u>Department of Employment</u>							
Current							
Temporary Short-time Working Compensation and Job Release Schemes	15	50	14	28	30	111	26
<u>Manpower Services Commission</u>							
Current							
Expenditure on Youth Opportunities Programme	28	21	16	15	16	40	16
Community Industry Programme	-	0.5	2	1	1	1	2
Community Enterprise Programme	9	2.1	6.5	2.6	3.5	11.5	5.8
Training Services (District Offices)	5	17	6	6	10	11	27
<u>Department of Industry</u>							
Capital	44	64	33	12	17	35	3
TOTAL : CENTRAL GOVERNMENT	549	747	361	332	426	742	2,340
<u>Local Authorities</u>							
Capital	120	245	137	94	138	193	1,035
Current	760	1,288	596	663	893	1,233	4,580
TOTALS : LOCAL GOVERNMENT	880	1,533	733	757	1,031	1,426	5,615
GRAND TOTALS	1,429	2,280	1,094	1,089	1,457	2,168	7,955

N.B. This table excludes contributory and non-contributory benefits paid by DHSS, and unemployment benefit which are not readily available. However for Merseyside there amounted to some £0.9bn, making a total of £2.3bn.

EEEEEEEEEEEEEEEEMESSAGE NO 1

NO 10 TO CORNWALL

MINUTE TO THE PRIME MINISTER FROM MR LANKESTER

C O N F I D E N T I A L

INNER CITIES

WE HAVE SENT DOWN IN THE BOX MICHAEL HESELTINE'S LONG MINUTE ON MERSEYSIDE, WHICH HE HAS CIRCULATED TO THE WHOLE OF CABINET, TOGETHER WITH HIS COVERING NOTE WHICH IS PERSONAL TO YOU. I OFFER BELOW SOME SUGGESTIONS ON HANDLING.

MR HESELTINE'S PROPOSALS FALL ESSENTIALLY UNDER THE FOLLOWING HEADS.

(1) CONTINUED MINISTERIAL COMMITMENT TO MERSEYSIDE AND APPOINTMENT OF MINISTERS WITH RESPONSIBILITY FOR OTHER CONURBATIONS. THIS IS A MATTER VERY MUCH FOR YOU, AND IS OF COURSE RELEVANT TO ANY MINISTERIAL CHANGES. HOWEVER, I EXPECT YOU WOULD WANT TO DISCUSS IT WITH THE HOME SECRETARY, AND MR HESELTINE IS OBVIOUSLY HOPING THAT HE WOULD BE CONSULTED. IN HIS COVERING MINUTE, HE SAYS THAT HE HOPES THAT "SO FAR AS POSSIBLE MINISTERS WITH FUNCTIONAL RESPONSIBILITIES RELATING TO THE CONURBATIONS SHOULD BE CONSIDERED FIRST".

(2) REORGANISATION OF REGIONAL OFFICES, AND A SINGLE REGIONAL OFFICE FOR LIVERPOOL. SEVERAL DEPARTMENTS HAVE AN INTEREST IN THIS (DOE, D/M, DHSS, EMPLOYMENT, DES, AND TRANSPORT). I THINK THE FIRST STEP IS FOR US TO GET ADVICE FROM SIR IAN BANCROFT. AGREE?

(3) REDIRECTION OF REGIONAL AND EMPLOYMENT POLICIES, AND ALLOCATION OF SUBSTANTIAL EXTRA RESOURCES TO MERSEYSIDE AND TO THE INNER CITY AREAS GENERALLY. MR HESELTINE SUGGESTS AN EXTRA NET £100 MILLION A YEAR FOR MERSEYSIDE, AND AN EXTRA AMOUNT (UNSPECIFIED) TO OTHER HARD-PRESSED CONURBATIONS. APART FROM HIS PROPOSALS FOR REVIEWS OF PARTICULAR POLICIES, THIS BOILS DOWN TO THE BASIC ISSUE OF WHETHER WE SHOULD BE GIVING NEW PRIORITY IN OUR PUBLIC SPENDING AND OTHER POLICIES TOWARDS THE INNER CITIES, AND THUS IN EFFECT REVERSING THE TREND UNDER THIS GOVERNMENT TO GIVE GREATER PRIORITY TO THE SHIRE COUNTIES. THERE IS ALSO THE POINT WHICH BEARS ON OUR WHOLE ECONOMIC STRATEGY OF WHERE THE EXTRA RESOURCES SHOULD COME FROM: SHOULD THEY BE AT THE EXPENSE OF OTHER PROGRAMMES, OR IN ADDITION TO THEM? ALL THIS IS REALLY A MATTER THAT WILL HAVE TO BE DECIDED IN CABINET, AND IN ADVANCE OF FINAL DECISIONS ON PUBLIC EXPENDITURE.

(4) POSSIBLE ABOLITION OF THE METROPOLITAN COUNTIES AND THE G L C. MR HESELTINE SUGGESTS THAT THIS SHOULD BE EXAMINED QUICKLY BY AN INTER-DEPARTMENTAL GROUP. THIS IS OF COURSE A VERY SENSITIVE SUBJECT, AND I DOUBT WHETHER YOU WOULD WANT TO SET IN HAND THIS REVIEW WITHOUT THE ENDORSEMENT OF CABINET OR AT LEAST E.

AT SOME STAGE IN SEPTEMBER, I THINK YOU WILL NEED TO HAVE A DISCUSSION OF MR HESELTINE'S PAPER IN CABINET. BUT IN ADVANCE OF THAT, YOU WILL WANT TO REACH YOUR OWN VIEW ON HIS MINISTERIAL RESPONSIBILITY PROPOSAL, AND I THINK YOU WILL WANT TO REACH SOME MEASURE OF AGREEMENT WITH MR HESELTINE AND THE CHANCELLOR ON THE BIG QUESTION UNDER (3) ABOVE. YOU COULD (UNDERLINE COULD) BRING IN THE OTHER MINISTERS WHO ARE MOST CLOSELY CONCERNED - I E EMPLOYMENT, INDUSTRY, EDUCATION, D H S S AND TRANSPORT. HOWEVER, I THINK IT WOULD BE BETTER FOR YOU TO CONFINE A PRELIMINARY MEETING TO THE CHANCELLOR AND MR HESELTINE PLUS THE HOME SECRETARY. KEEPING IT THIS SMALL WOULD ALSO ENABLE YOU TO DISCUSS THE MINISTERIAL RESPONSIBILITY POINT. YOU CAN THEN DECIDE WHETHER TO GO STRAIGHT TO CABINET OR WHETHER TO HAVE A FURTHER, ENLARGED MEETING WITH THE MINISTERS MENTIONED EARLIER IN THIS PARAGRAPH PLUS POSSIBLY THE SCOTTISH AND WELSH SECRETARIES.

THE BEST DATE FOR THE PRELIMINARY MEETING WOULD SEEM TO BE THE MORNING OF MONDAY 7 SEPTEMBER. YOU COULD (UNDERLINE COULD) DO IT THE PREVIOUS WEDNESDAY BEFORE GOING TO BALMORAL: BUT ROBERT ARMSTRONG WOULD NOT BE AVAILABLE (HE WILL BE ON HOLIDAY IN SWITZERLAND AND I BELIEVE HIS PRESENCE IS QUITE IMPORTANT), IT WOULD BE CLIVE'S FIRST DAY BACK AND I WILL NOT BE HERE. IF YOU AGREE THEN, WE WILL GO FOR A MEETING ON MONDAY 7 SEPTEMBER WITH THE HOME SECRETARY, MR HESELTINE, THE CHANCELLOR AND SIR ROBERT ARMSTRONG. WE WOULD GET A BRIEF FROM THE CABINET OFFICE, AND ALSO ADVICE FROM IAN BANCROFT ON THE REGIONAL OFFICE PROPOSAL.

MESSAGE ENDS

14 AUGUST 1981

Not more work has to be done before M.H.'s document is discussed. What he is really saying is that in spite of a lot of money a lot of people who have been working on the matter of Merseyside their action is so fruitless and unco-ordinated that it has been ~~damaging~~ even damaging. We have to look to see why p.p.s.

there is such
~~that~~ ~~fact~~ of co-ordination between
departments and authorities and put that right,
permanently. The spirit of one Minister for a
year would do it. ^{Michael} ^{is} ^{the} ^{main} ^{idea} ^{for}
homework, local govt + planning. We must get things to
right within and between departments and jobs

I will discuss when I return. Would you please
set up a meeting with M.H. + W.U. ~~and~~
when and only when
they return from holiday.

mb

(The following text is extremely faint and mostly illegible, appearing to be a typed document or a page from a book. It contains several paragraphs of text, some of which are partially obscured by a yellow sticky note on the left side of the page. The text is oriented vertically on the page.)

PRIME MINISTER'S MEETING WITH TUC - 1 SEPTEMBER 1981

YOUNG WORKERS SCHEME

1. The TUC may well raise this. Mr Murray has been reported as saying that the scheme's purpose was to "encourage employers to undermine union rates of pay"; that the new modification (ie to £45) extends that aim, and that there had been no consultation with the unions on the subsidy. He also said the scheme was ill conceived and thoroughly offensive to the trade union movement and there must be strong doubts whether the ill thought scheme will encourage any additional jobs for young people at all. The Government would do better to put resources into increasing the Youth Opportunities Programme.

POINTS

CONSULTATION

2. The Minister of State, Department of Employment wrote to Mr Murray and the CBI on 27 August to consult them about the scheme. Their views are requested by 9 October.

PURPOSE OF SCHEME

3. The basic aim is to provide more real jobs for young people. The Government believes more employers will be prepared to do this if they can do so at realistic wage rates and the subsidy is designed to facilitate this. Young people's wages in this country are high in relation to adults. One of the questions raised in the New Training Initiative was whether young people's remuneration reflected their training status.

UNDERMINING WAGE BARGAINING

4. The scheme does not affect collective agreements or exempt employers from any obligation they may have under a Wages Council Order, although many employers paying basic wages council rates will be able to benefit from the subsidy.

BEST TO CONCENTRATE ON YOP

5. The Government has recognised the continued and growing importance of YOP by increasing the intake to 550,000 in this financial year.

Th

The Young Workers Scheme is not designed to replace YOP, but to encourage employers to provide more real jobs, the lack of which makes YOP necessary.

DETERRENT TO RECRUITMENT

5. There is no reason why employers should defer recruitment until the Scheme starts. Employers will still be able to claim the maximum 12 months subsidy when the scheme starts in January in respect of school leavers recruited now.

NUMBERS COVERED

6. In background press briefing the Department has said that payments may be made in respect of between 50,000 and 100,000 jobs, but it may well take some time to build up to this level. We would expect a considerable number of applications when the scheme starts - mainly for young people already employed, but eligible, with a slow build up thereafter. It is not possible to be precise about numbers and the scheme has not been designed with particular industries in mind.

YOUNG PEOPLE SUBSTITUTED FOR OTHERS

7. The aim of the scheme is to increase the chances of young people getting jobs and to encourage employers to take them on in new jobs. It is not thought that many young people will be taken on in preference to adults, although this could happen at the margin' (just as in some cases employers may recently have preferred to recruit adults, because of the relatively high wage costs of employing young people.)

file

259

Reg 20
MAY 25/8

CF

27 August 1981

It may be helpful to you to have the attached list of the TUC team for the meeting with the Prime Minister on inner cities which will take place here at 1500 hours on 1 September.

I am sending copies of this letter and its enclosure to John Halliday (Home Office), Terry Mathews (Chief Secretary's Office, HM Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

MAF

David Edmonds, Esq.,
Department of the Environment.

B6

file

286

27 August 1981

Thank you for your letter of 26 August listing the TUC representatives who will arrive here at 1415 on Tuesday 1 September for an internal meeting prior to their meeting with the Prime Minister at 1500.

MAP

J. Monks, Esq.

1/10

cc: Mr Taylor, Mr. Hosley, Rees Office.

TRADES UNION CONGRESS

CONGRESS HOUSE · GREAT RUSSELL STREET · LONDON WC1B 3LS

Telephone 01-636 4030

Telegrams TRADUNIC LONDON WCI

cc Regional Policy: Inner Cities Policy: P2

Mr. M. Pattison,
The Private Office,
10, Downing Street,
London,
S.W.1.

YOUR REFERENCE

OUR REFERENCE

JM/PA/TC.

DEPARTMENT

Organisation and Industrial
Relations

August 26 1981

Dear Mr. Pattison,

"Regenerating our Inner Cities"
Meeting with the Prime Minister

Further to Mr. Peter Ashby's telephone conversation with you yesterday, I enclose a list of the TUC representatives who will be attending the meeting with the Prime Minister, on Tuesday September 1 at 3.00 p.m.

Thank you for arranging a room for a pre-meeting for the TUC side at 2.15 p.m.

Yours sincerely,

J. Monks

J. Monks
Secretary
Organisation and Industrial Relations
Department.

Enc)

Meeting with the Prime Minister, Tuesday September 1 1981TUC Representatives

Mr. A.W. Fisher	Chairman, TUC General Council
Mr. D. Basnett	Chairman, Economic Committee
Mr. G.A. Drain	Chairman, Public Services Committee
Mr. K. Gill	Chairman, Equal Rights Committee
Mr. C. Jenkins	Chairman, Education Committee
Mr. W.H. Keys	Chairman, Employment Policy and Organisation Committee
Mr. T. Parry	Chairman, Social Insurance and Industrial Welfare Committee
Mr. L. Murray	General Secretary
Mr. N.D. Willis	Deputy General Secretary
Mr. K. Graham	Assistant General Secretary
Mr. D. Lea	Assistant General Secretary
Mr. B. Barber	Press & Information Officer
Mr. B. Callaghan	Secretary Economic Department
Mr. R.A. Jackson	Secretary, Education Department
Mr. P. Jacques	Secretary Social Insurance and Industrial Welfare Department
Mr. J. Monks	Secretary Organisation and Industrial Relations Department
Mr. P. Ashby	T.U.C. Office

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The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer
Treasury
Parliament Street
SW1P 3HE

YOUR REFERENCE

OUR REFERENCE LM/BC/IB/MM

DEPARTMENT Economic

August 24 1981

cc. Regional Policy: Inner Cities Policy: Pt 2.

Dear Sir Geoffrey

The Reconstruction of Britain

I enclose a copy of a major TUC statement entitled 'The Reconstruction of Britain'. The proposals set out in this statement are designed to restore the level of public capital expenditure to that of 1975/76. This will cost £24 billion over five years, and will create over 500,000 new jobs.

I hope that you will be able to support these proposals as a practical way of ensuring economic recovery, utilising some of the unused resources of capital and labour which will otherwise continue to be wasted, not least in the construction industry.

Yours sincerely

Lionel Murray

General Secretary

Enc:

FROM THE TUC FOR THE PRESS

GENERAL SECRETARY: LIONEL MURRAY OBE

PRESS OFFICER: BRENDAN BARBER

TELEPHONE: 01-636 4030

RELEASED FOR PUBLICATION

August 20, 1981

IMMEDIATELY

"THE RECONSTRUCTION OF BRITAIN"

In launching the TUC policy statement, "The Reconstruction of Britain", TUC General Secretary, Mr Lionel Murray, today said:

"The Reconstruction of Britain" sets out a £24 billion programme of public investment over five years which would restore spending in real terms to the level of 1975-76. The programme would generate 500,000 new jobs throughout the economy - in both public and private sectors - and so make a major contribution to bringing down the level of unemployment as well as regenerating the decaying infrastructure of the economy.

"The Reconstruction of Britain" develops the arguments put forward by the TUC in its 1981 Economic Review - Plan for Growth. It complements another recent TUC publication "Regenerating Our Inner Cities" which put forward proposals for tackling the social and economic problems of Britain's cities.

This report is a key part of the TUC's plan for Britain's economic recovery.

It is a challenge to the nation and a challenge to the Government. We shall be putting it to Congress. And it will be the agenda for action we shall be sending to Ministers, the nationalised industries and the CBI, marked urgent.

The recession is continuing. That is obvious to everyone but a few Ministers who are occupied full time in trying to keep each other's spirits up. The key question for Britain, if not for them, is how we get back to economic expansion.

Neither exports nor private investment will provide the necessary stimulus. Public investment has a key role to play in priming the pump and in restoring the foundations on which private industry can flourish. Far from public investment crowding out private investment, it will stimulate investment, output and employment in the private sector. One area where this is patently obvious is construction, where 25% of workers are unemployed.

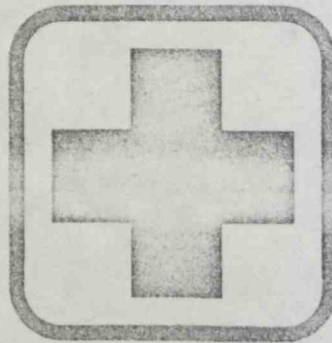
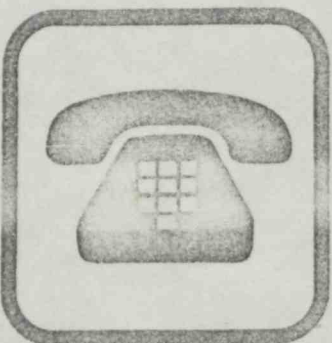
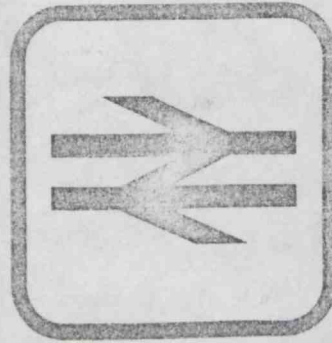
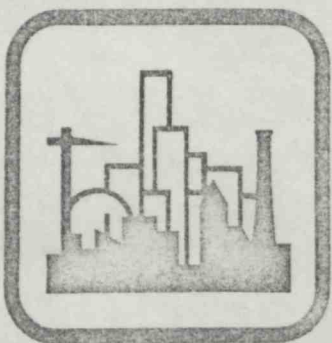
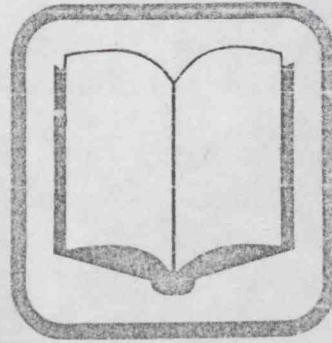
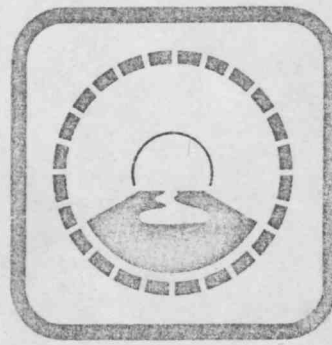
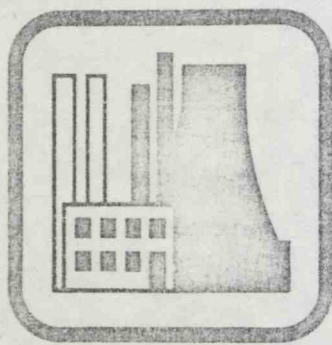
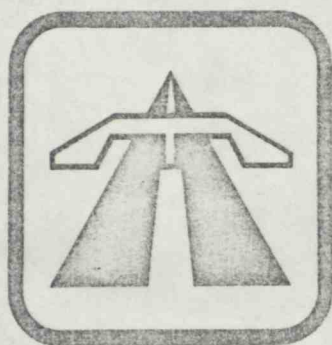
£24 billion over 5 years is not a lot of money for Britain. It is less than 3 per cent of the money national income over that period, and will pay for itself over and over again. Not least it will pay for itself in terms of jobs for Britain.

The alternative - which is happening now - is to ship it abroad. Last year the private sector invested £7 billion overseas - an increase of about 30 per cent in three years. If they were to carry on at this rate that would cost £35 billion in 5 years, without providing any jobs in Britain.

The resources are lying there disused. The workers are there, the skills are there, the management are there - idle. We want to put them to work for Britain."

* * * *

THE RECONSTRUCTION OF BRITAIN



A
TUC
Publication

Preface

This publication shows the role of public investment in the reconstruction of Britain.

The TUC plan for public investment will create over 500,000 new jobs.

This could make a major contribution in the attack on unemployment, but given the scale of unemployment in Britain in the 1980s many other policies will be needed too.

The overall framework of policies for dealing with unemployment was set out in *Plan for Growth: The Economic Alternative*, published by the TUC in February 1981. This wider programme includes expansion of the public services, improved social benefits, and a fairer sharing out of the tax burden, including tax cuts for the poor.

The TUC will be developing its policies in more detail, but this publication highlights major priorities in the TUC's alternative.

Introduction

A five-year £24 billion programme of public investment will provide jobs throughout the economy. First in the building and civil engineering industries, then in the building materials and mechanical engineering industries, and so on as extra orders and spending power work their way through the economy.

These 500,000 jobs are not artificial. They are not the result of make-work schemes or extravagant 'white elephant' projects. These jobs will help meet real needs.

The housing waiting list is growing.

The energy crisis demands better insulation and investment in new forms of energy.

The cracks in our motorways and the delays they cause are well known to all those who travel by road, as are British Rail's old-fashioned and dilapidated rolling stock to rail passengers.

Britain's sewerage system – the legacy of investment in the Victorian era – is breaking up.

The high technology end of the public sector needs funds too, for example British Telecom desperately needs extra funds to modernise the telecommunications system.

So the public sector needs investment to survive, that is the crucial, but not the only, argument.

All of the private sector will benefit from this investment. This will come from extra orders, and also through a boost to private sector efficiency, for example, through improved transport and communications networks.

One thing and one thing only is holding up the introduction of this programme. It is not finance. The savings are there to finance investment. What is lacking is the political will and the imagination to put these savings to work for the benefit of the British people.

Why we need public investment

Investment

Every society needs to invest, in other words to use resources now to bring benefits for the future. But over the past year investment has slumped.

Between the last three months of 1979 and the last three months of 1980 investment in manufacturing industry fell by 20 per cent, the biggest recorded fall for over a decade. Over the same period total investment fell by 7.8 per cent – with a 6.8 per cent fall in the private sector, a 16.6 per cent fall in central and local government, and a 3.5 per cent fall in public corporations.

North Sea Oil

The TUC has firmly supported extra investment as a priority use of North Sea oil benefits. In fact the exact opposite has happened. As North Sea oil has come on stream, investment has fallen. A vital national asset is being squandered.

Social Needs

Public investment has a key role. It is needed to meet basic social needs. Good housing, modern hospitals and schools, parks, libraries and leisure facilities all need public investment. If public investment falls then these social needs go unmet, as there is no way the private sector could fill the gap.

Nationalised Industries

The nationalised industries dominate Britain's core industries, such as energy, transport and communications. Far too often these industries have been the subject of ill-informed attack. Their efficiency record is as good as, and in many cases better than, comparable industries overseas. Their record stands up well in comparison with the private sector, and in addition they meet many social needs, for example providing services in remote rural areas.

Neither are the nationalised industries over-subsidised. As *Plan for Growth*, the 1981 TUC Economic Review, showed, BR is less of a burden on the public purse than any other rail system in Europe apart from the Swedish railway. The subsidy on UK produced coal is only £2 a tonne compared with £35 a tonne in West Germany and £66 a tonne in France.

No one pretends that there is no room for improvement in the efficiency of the nationalised industries. But such improvements cannot be made if the nationalised industries are prevented from modernisation by over-rigid cash limits, or External Financing Limits (EFLs) as they are known in the nationalised industries.

Public Sector Enterprise

The mid-70s saw the development of a new role for public investment – in manufacturing industry. This stemmed from the nationalisation of the shipbuilding and aerospace industries and the development of the National Enterprise Board (NEB). The public sector has shown itself far more enterprising than so-called 'private enterprise', which in many cases shows itself to be slothful, conservative and unimaginative. Britain's micro-electronics and computer industry owes much to the enterprise of the public sector.

Interdependence

The public sector also has a key role in terms of its links with the private sector.

A recent study by the National Economic Development Office (NEDO) shows clearly that the fortunes of the public and private sectors are closely linked. For instance, about one third of sales within the UK involve the public sector as buyer or seller. And one eighth of all goods and services produced by the private sector are bought by the public sector. In some industries this proportion is much higher. For instance, in mining machinery and civil engineering about 90 per cent of output is bought by the public sector; and electronics, pharmaceuticals, and mechanical handling sell about half.

These links mean that cuts and uncertainties in public investment have reduced investment, discouraged innovation, and lost jobs in many key private sector industries.

The close links between the public and private sectors mean that expansion in the public sector will be largely met from home resources and not from imports. Although there is room for improvement the purchasing record of public firms and authorities is a good one, and much better than the private sector.

The interdependence of the public and private sectors has been ignored by the Government.

The Government's response has been to restrict the finance available to central and local government and nationalised industries so much so that worthwhile investment projects have been halted.

Denationalisation

Moreover, the Government has proceeded with its denationalisation plans. These involve selling off the profitable parts of the public sector but leaving the rest. Local authorities, health authorities, and central government are being threatened by the moves towards contracting out. Public industries are under

threat from denationalisation and the NEB has been gutted.

There are many fears about the effects of denationalisation. Among the foremost is the threat to the structure of many of our nationalised industries, which provide a comprehensive network of service throughout the country.

The TUC has warned the Government of the total opposition of the trade union Movement to further denationalisation moves, such as the sale of British Gas showrooms, and ports and harbours. These sales will make it more difficult to carry out the investment programme set out in this statement.

Key Points

- Investment has slumped, despite North Sea oil: a vital national asset is being squandered.
- Public investment is needed to meet social needs.
- Nationalised industries are as efficient as any in the world, and often more efficient than the private sector.
- Nationalised industries in Britain receive fewer subsidies than foreign nationalised industries.
- The prosperity of the private sector depends on a healthy public sector.

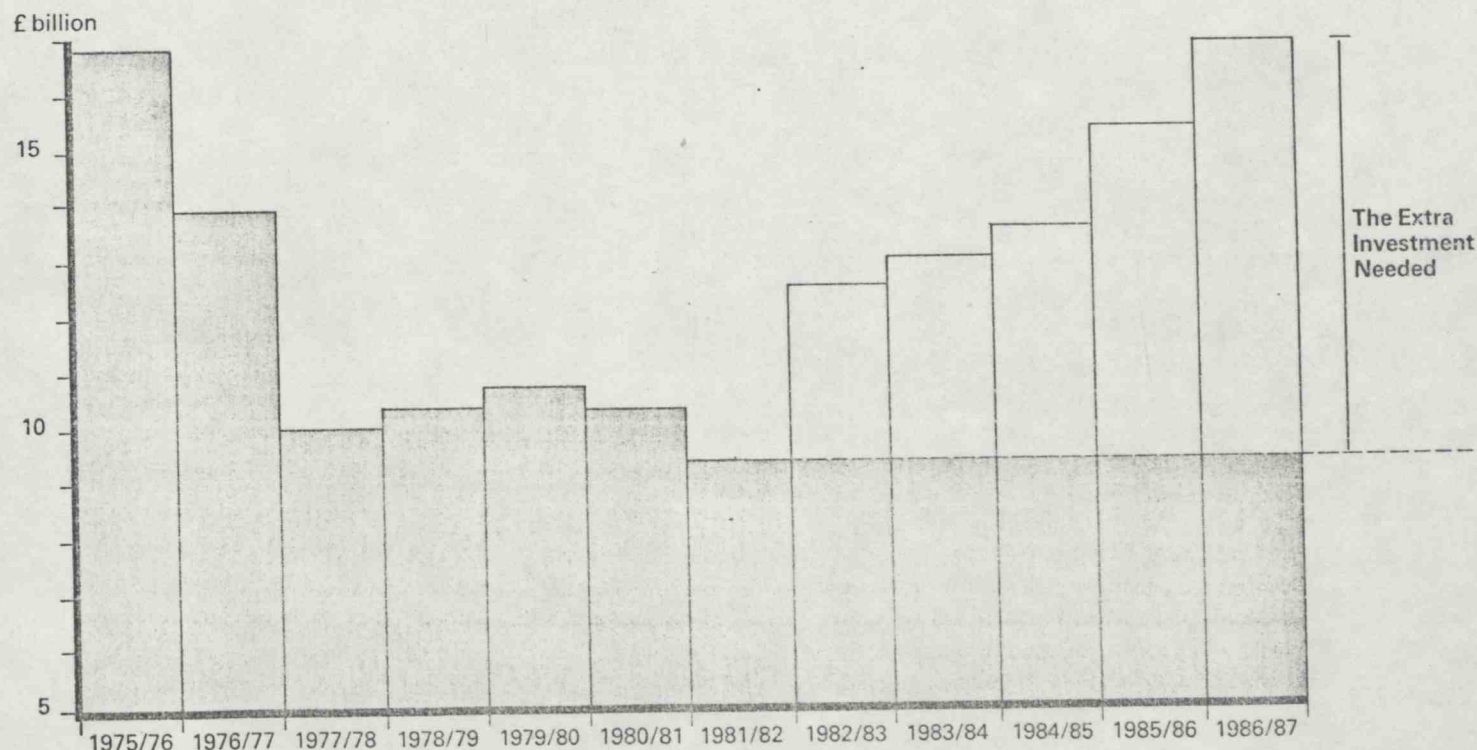
The TUC's programme

A Five-Year Plan

The cuts in public investment last year follow five years of cuts as Figure 1 below shows.

Figure 1:

Restoring the Cuts



Source: *The Government's Expenditure Plans 1981/82 to 1983/84 and the Government's Expenditure Plans 1979/80 to 1982/83.*

Figure 1 shows how public investment has fallen from over £16 billion in 1975/76 to £10 billion this year. The TUC's five-year plan for the part to be played by public investment in the reconstruction of Britain is shown by the lighter area on the right-hand side of the diagram.

The Government's plans are to maintain public sector capital spending at over £9 billion in 1981/82. It is assumed that the Government will continue to plan for this level of spending up to 1986/87. This is shown by the dotted line. The TUC programme is for an increase of nearly £3 billion in 1982/83 and successive increases in the following four years to restore the annual level of spending in real terms to the 1975/76 level.

In total the TUC is advocating extra spending of £24 billion over the next five years. One point needs to be clarified at the outset. The £24 billion figure is on top of the spending plans already authorised by the Government. For example, investment in the coal industry or

the investment in the gas gathering pipeline is included in present plans rather than the TUC proposals.

The TUC cannot emphasise enough that the public spending package must be seen as a whole. In other words protecting existing plans from further cuts is just as important as increasing capital spending.

Time Lags

Public investment is not a tap which can be turned on and off at will. A major TUC criticism of the way public spending is planned, particularly the use of cash limits, is that it ignores the long-term nature of many projects.

Ideally the TUC would like to restore the £16 billion plus annual spending right away; that is unfortunately not practicable, but a start can be made next year on quick acting projects. Some of the restrictions in the system which cause unnecessary delays in major public projects, for example frequent design changes,

should be removed. These can cause problems by rapidly increasing costs.

In the detailed proposals set out below the TUC has deliberately chosen a mix of projects; from projects with a very long-run time scale such as the construction of a power station to projects which could be started almost immediately such as the renovation, repair and insulation of homes. The TUC has also chosen a mix of projects involving the building and civil engineering sections of the construction industry.

Benefits to the Construction Industry

Many of the projects outlined below will bring major benefits for the construction industry which is at present experiencing record levels of unemployment. Official figures show that one in four construction workers are jobless. Using estimates provided by the

Building Research Establishment (BRE – a Government research centre for the construction industry) the TUC has calculated how many jobs will be created for on-site construction manual workers. These are shown for each of the programmes set out below.

Key Points

- Public investment has been cut for five years: the TUC's five-year programme will restore these cuts.
- The TUC's programme will cost nearly £24 billion over five years.
- All this money is on top of what the Government is likely to spend. But existing plans must also be protected.
- Public investment cannot be turned on and off like a tap: this is why it will take five years to get back to the 1975/76 level of investment.
- These projects are a mix of quick acting programmes such as house repairs, and long term programmes such as sewer reconstruction and power station building.
- Many of the projects will benefit the hard-pressed building and civil engineering industries.

The programme

The programme set out below includes house renovation, repair, and construction; the inner cities regeneration programme; health and education; and sewer replacement. It also covers investment in roads, railways, ports and airports; telecommunications; and energy conservation and power station construction.



Housing

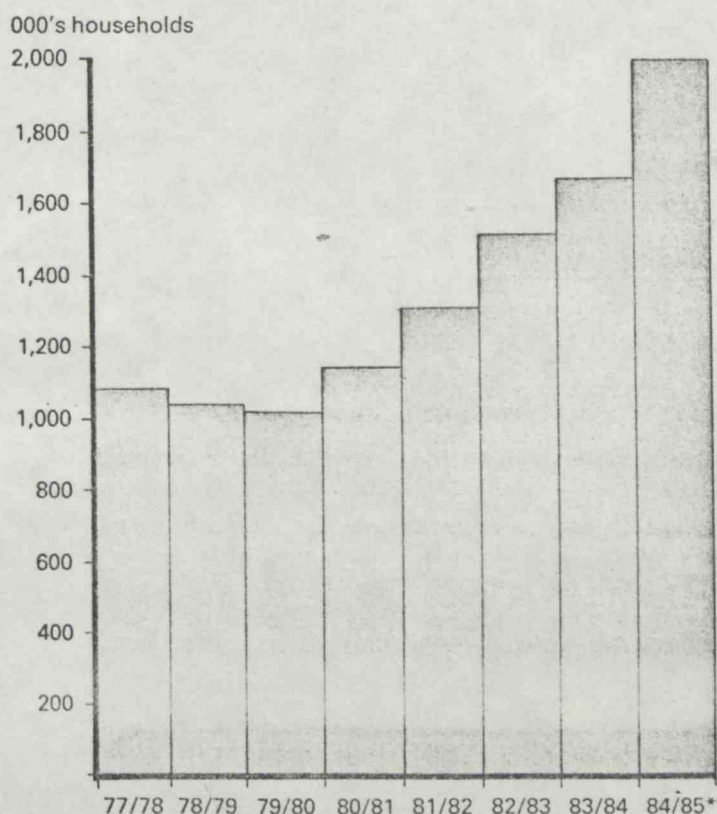
Nothing illustrates better the social need for public investment than the growing housing waiting list. This social crisis has been caused by the savage cuts in the number of new council houses being built. In 1975 over 110,000 new council houses were started. By 1980 the number of new council houses started had slumped to 27,000. The housing crisis has hit both inner city and rural areas alike. The thoughtless sale of council homes has also added to this crisis. The results of these policies are shown in Figure 2 below.

In 1981/82, Shelter estimates that new council house construction and relets will provide about 125,000 new homes for people on the waiting lists. By 1984/85 this will have fallen to 85,000.

By the end of the decade, in eight years' time, this means that 715,000 new council homes will have been

Figure 2:

Projected Housing Waiting List



Note: Figure for 1984/85* to end of 1984 only.
Source: Shelter 1980 Waiting List Survey, England.

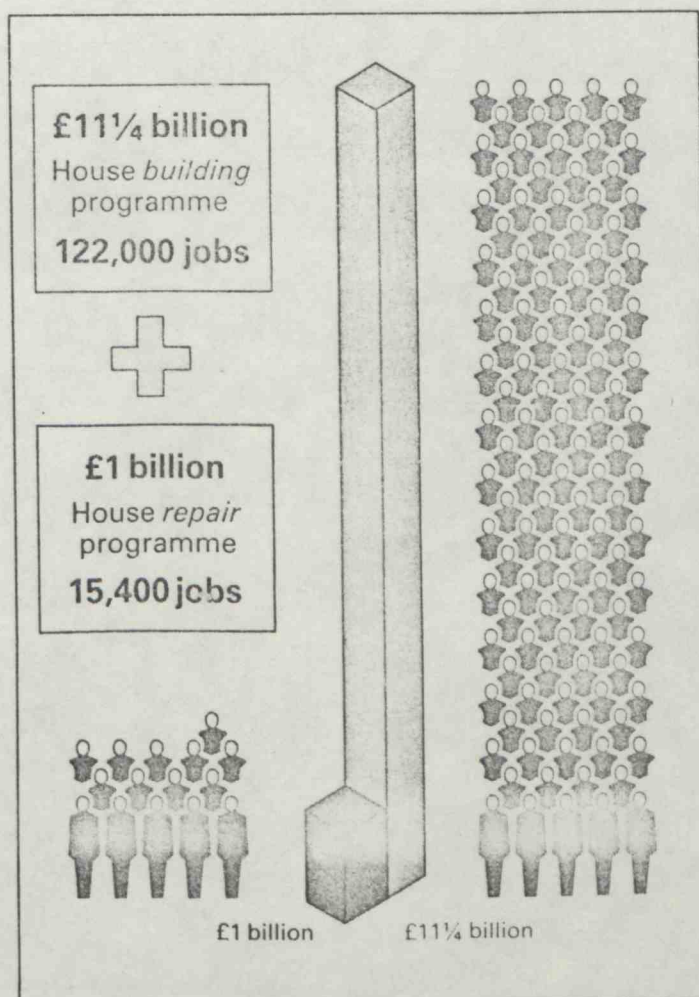
provided. If the waiting list gets no bigger than 2 million, this means providing an extra 1.2 million council houses by 1989.

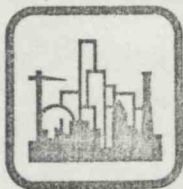
The TUC proposes that this growing housing crisis should be tackled by a £20 billion renovation and re-building programme. This would take place over the next eight years. It will involve building a million new council houses and renovating another 200,000 empty and hard-to-let council houses. But every year this programme is delayed will increase the size of the problem: quick action by the Government is essential.

Most of the money spent in the first year of the programme would go on repairs and renovations rather than new buildings. But it is essential that plans are laid as quickly as possible for new buildings so that land can be bought and cleared, and architects' designs drawn.

Therefore over the next five years an extra £11¼ billion should be spent on house building and £1 billion on house renovation and repair.

The £1 billion house repair programme will create 15,400 construction jobs and the £11¼ billion house building programme will create 122,000 jobs.





Inner City Regeneration

The TUC has recently issued a policy statement, *Regenerating our inner cities*. This called for a substantial increase (to £700 million) in assistance to inner cities. Part of this will come from some of the main spending programmes outlined elsewhere in this statement.

The main urban programme will in its first year require an additional £390 million on top of what the Government already provides. The TUC made it clear that in future years this sum would have to be increased.

A minimum estimate for the extra resources required over the next five years would be around £2,000 million on such projects as land acquisition, clearance, house renovation, leisure and community facilities and building new industrial premises in the inner cities.



Health

The TUC 1981 Economic Review called for a substantial increase in resources for the National Health Service (NHS), in line with a three per cent real increase in annual expenditure. This is urgently needed to maintain and improve standards of health care, particularly for our ageing population. Some of this money will go on building improvements and alterations, and on new building works.

On past trends, about £75 million a year could be spent on work involving the construction industry.

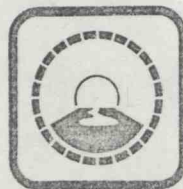
Over five years, this would require £375 million. This would provide for over 3,800 construction jobs.



Education

The latest School Inspectors' Report found that over half the Local Education Authorities (LEAs) in England have reduced repairs and maintenance. The Inspectors also found that out of 900 school premises inspected, 300 were in a poor physical condition.

In order to provide decent school and college buildings for all our children, these deficiencies must be put right and, where necessary, new buildings provided. The exact cost of this is not known. But the Government is planning to cut £125 million from capital spending in 1981/82, compared with 1979/80. Instead, this money should be used to repair and maintain schools, and provide new buildings. This would mean £625 million over five years, and create nearly 7,000 construction jobs.



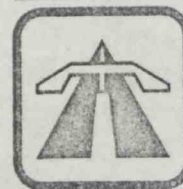
The Sewerage System

The sewerage system is well beyond its expected life-span. In areas with particularly aged sewers, such as the North West, up to three sewers per day are collapsing. The cost of replacing the oldest parts of the system has been estimated at around £4 billion. This would obviously be spread over a number of years.

There are wider benefits from a replacement programme. These include less risk to public health and a modern efficient system fully capable of treating a wide variety of industrial effluents, and supplying industrial demand for water. The programme will also remove delays in housing expansion.

Over five years, a partial replacement programme could cost £1,000 million.

Replacing Britain's out-dated sewers would demand 5,000 construction jobs.



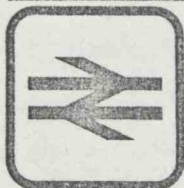
Roads

The design lifetime of many of the older motorways is now coming to an end. The Government estimates that at least 50 miles of motorway will need rebuilding each year for the foreseeable future. Wherever possible, the rate of replacement should be accelerated to ensure that motorways are maintained to a high standard and to minimise the length of time over which existing motorway traffic is disrupted by rebuilding.

Since 1979 the Government has cut expenditure on road construction and maintenance savagely. Many badly needed roads are only being held up by lack of money, and the RAC has recently described the state of roads as appalling.

If these cuts are to be restored over the next five years, then annual extra expenditure on roads would have to be increased by about £570 million.

This programme will require nearly 15,000 construction jobs.



Railways

The railways badly need to renew worn-out assets. British Rail estimate that if this investment does not take place, then by 1990 over 3000 miles of track will no longer be safe to use, and another 800 will have speed restrictions. In addition, signal failure incidents will more than double, and the availability of locomotives will fall by between a quarter and a fifth. Renewal of these assets will require an extra £72 million a year for ten years.

In order to electrify main line services, British Rail also estimate that they will need about £36 million a year for ten years. On top of this, BR would like to invest an extra £92 million per year in the overstrained London and South East region commuter network, and another £10 million per year to improve services to Stansted and Gatwick.

These proposed investments are all additional to current railway investment and to a possible Channel Tunnel. It is difficult to say just how much would be spent in the first five years. BR estimates that if the plan was authorised in 1981 then most spending would take place after 1983, and investment would not peak until 1987.

Adding up the average annual total gives a five-year total of £360 million on renewing assets, £180 million on main line electrification, and £510 million on other service improvements. This gives an overall railway investment total of around £1 billion over five years.

The BRE have not produced figures for the employment content of railway investment, but BR have estimated that the electrification programme will involve 2,000 new jobs both inside and outside BR. The programme in total will help protect many tens of thousands of jobs of those working in railway workshops and those involved in railway operations.



Ports and Airports

There is a need for greater investment to modernise ports and airports. In addition, a Channel Tunnel, or other channel crossing is likely to be started in the next

five years. The form such a crossing might take (such as a rail only tunnel, a road and rail tunnel, or a combined bridge and tunnel) is still under discussion.

Whatever the form such a fixed crossing takes, it is clear that substantial investment will be required in ports and harbours in order to modernise them. As a first step, the cuts in real terms since 1979 must be restored. This would mean an extra £24 million for ports over the five years.

The British Airports Authority (BAA) estimates that new airport improvements and construction will cost £120 million per annum. The BAA's plans are based on Stansted, Gatwick, and Heathrow. Consideration must also be given to improving facilities at other regional airports, and this may mean diverting some of the planned investment elsewhere. Airport improvements over the next five years are likely to cost at least £600 million, but this figure may have to be increased to fully accommodate regional airport improvements.

In total, ports and airport development will create over 3,000 construction jobs.



Telecommunications

British Telecom (BT) estimates that it needs to spend £2.2 billion a year over the next five years to expand and bring the telecommunications network up to date. For instance, 70 per cent of telephone connections still go through old-fashioned 'Strowger' exchanges and this needs to be replaced by 'System X' exchanges. Similarly, the underground cable network is in many cases old and patched up, and requires replacing. Many exchanges and cables are now over 30 years old. The shortfall in investment is currently running at £200 million per annum – or £1 billion over five years.

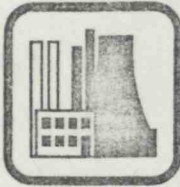
The construction jobs content of this is relatively small, but as with BR, the main effect will be to protect existing jobs in BT and in its supplying industries.



Energy Conservation

The TUC 1981 Energy Review supported the expansion of projects designed to increase energy conservation, particularly insulation and other construction related measures. These could provide up to another £450 million for a public sector insulation programme, and an extra £75 million for the private sector, both programmes to be spread over four years.

This could provide for another 7,000 construction jobs.



Power Stations

The TUC Energy Review also called for an ordering programme to provide an average 2 GW capacity each year. This compares to an indicated maximum of 1.5 GW planned by the CEBG. The additional costs of this programme over five years, would be about £1,250 million, and could require 6,250 construction workers.

Key Points

- An eight-year construction and repair and renovation programme should be started to provide 1.2 million new council homes. The first five years of this programme would cost £12,250 million.
- The main urban programme will need at least £2,000 million extra over the next five years.
- Health and education building work will need an extra £1,000 million.
- The sewerage system will need an extra £1,000 million to start a badly needed replacement programme.
- Road maintenance and construction will need another £570 million a year for five years: this means another £2,850 million over five years.
- Railway investment needs to be increased by £1,000 million over five years.
- Ports and airport improvements will cost an extra £624 million.
- Telecommunication investment need an extra £1,000 million over five years.
- Energy conservation will need an extra £450 million.
- Extra power station capacity will need £1,250 million.

Jobs created by the programme

The Direct Job Effect

The £24 billion programme would create over 1 million man years of construction work, which over a five-year period is equivalent to 200,000 jobs for construction operatives. However, the impact on staff has also to be considered, such as architects, designers, planners, and clerical workers. Because these account for 25 per cent of employees in the industry, it is assumed that a quarter of the new jobs created will also be support staff. This will increase the direct job creation figure to 1,310,000 man years.

Jobs Created Elsewhere

But this will not be the only employment effect of these measures. There are two more effects to consider.

■ Firstly, jobs can be created indirectly in industries supplying the investment industries (e.g., railway engineering firms, electronic and electrical equipment suppliers) and in firms supplying the suppliers (e.g., steel).

■ Secondly, jobs can be created elsewhere by the extra income and output produced by direct and in-

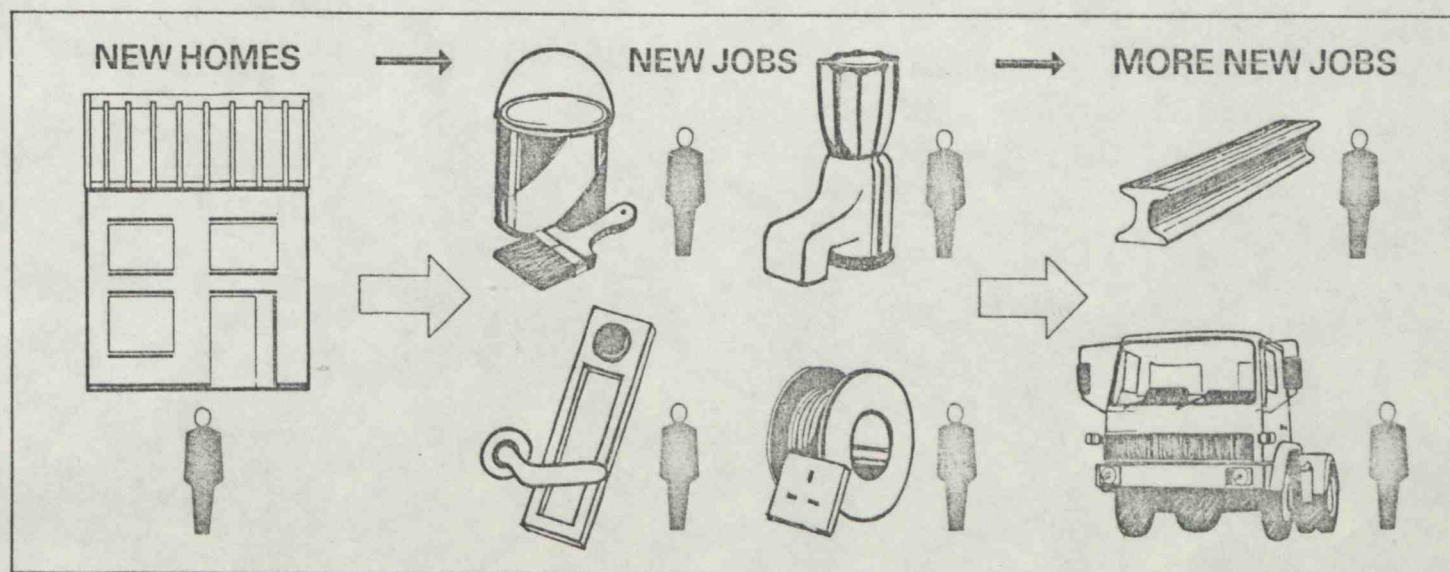
direct employment effects (e.g., consumer goods industries).

These effects are of great importance, but they are difficult to calculate exactly. Various research studies show that these effects will mean that for every job created directly by this programme a further job would be created indirectly in the economy. This effect is called the 'employment multiplier'.

The following example shows how this might work. A new house will provide extra orders for the building materials and supplies industry, and all the firms which supply them. Orders for paint will in turn benefit the chemical industry. Orders for metal fittings will help the light engineering industry. And so on.

But the multiplier is wider than this. At each stage in the process extra workers will be taken on, mainly in the construction industry but also in the supplying industries further down the line. The extra income will then be spent creating new orders and therefore employment throughout the economy. It can mean extra orders both for large firms and the corner shop.

To get the total job effect the figure of 1,310,000 needs to be multiplied by two to give 2,620,000 man years over five years or over 500,000 jobs.



Key Points

- For every job the TUC's programme creates directly another job is created elsewhere.
- Some of these jobs created elsewhere will be in supplier industries: others will be in consumer goods and service industries.
- This means that the programme will create 500,000 new permanent jobs over the next five years.

Financing the programme

Why the Government should borrow to invest

Investment is provision for the future. It is quite normal to borrow to finance that investment. Companies borrow to finance their investment; there is no reason why the public sector should not do the same. The TUC has already published plans for a National Investment Bank to finance major projects and for a radical reform of the system of financing the nationalised industries.

There is nothing wrong in the Government borrowing either to spend itself or make grants to public bodies, especially if it can put the nation's savings to good use. If the private business sector is not willing to borrow, the recession will deepen still further unless the public sector does.

Why the Government says it cannot invest

The Government claims that it is unable to increase public spending, in the inner cities as in other areas, because of the effect on private sector industry. It claims that increasing public sector investment or current spending, for example, on housing, schools or hospitals will reduce the private sector, and increase inflation. The Government claims that increasing public spending would require an increase in its borrowing which would raise interest rates. This would cause private sector spending to fall by an equal amount, and the economy would be no better off.

Alternatively, it argues that increasing investment by borrowing from the banks will increase the money supply and increase inflation.

Why the Government is wrong

Both the National Economic Development Office and the Bank of England have recently studied these arguments and neither could find evidence to support them.

■ Firstly, high levels of Government borrowing do not mean that the level of interest rates must also be high. For example, in the past year Government borrowing has remained high, yet interest rates have been reduced.

■ Secondly, most studies show that private sector investment is more strongly influenced by the level of activity in the economy than by interest rates. Public sector investment will in fact boost activity and encourage private sector investment.

■ Thirdly, no firm evidence exists to show that increases in the money supply mean higher inflation.

■ Fourthly, little evidence exists that the level of demand in the economy is an important influence on the rate of inflation.

This programme will mean an increase in the amount the Government borrows in the short term. But in the long run the financing problem will be eased as the economy expands and Government borrowing falls as a proportion of national wealth.

Moreover, it must make more economic sense to use public money on modernising the economy rather than on paying unemployment benefit. If the truth were told it is the Government's own policies which have destroyed the finances of the public sector through a failure to recognise this simple fact. Their plan to cut Government borrowing has failed and the costs have been enormous.

Priorities

But the argument for borrowing does not imply that resources are limitless and that no choices on priorities have to be made. Within this programme difficult decisions will have to be made about the regional balance of spending. Even a five year £24 billion programme will not meet all the needs of society.

Conclusion

This programme for the reconstruction of Britain is an essential part of the TUC's Plan for Growth. Public investment must spearhead growth. However, it is not the only form which economic growth will take. The TUC's economic alternative also involves increases in living standards, private investment and exports, but it is an increase in public investment which can provide the stimulus to the rest of the economy.

The TUC wishes to underline one point. An expansion of public investment should in no way be accompanied by a cut in the public services. It is no good building new hospitals and schools if there are no funds to provide for nurses and teachers to staff them. Moreover, an increase in public investment matched by a cut in other public spending would leave the economy no better off.

This programme is a bold one. But it is also a realistic one. The 1981 TUC *Economic Review* showed how the economic alternative would work. This document has established one key part of that alternative. Now, as registered unemployment climbs inexorably to 3 million and beyond, the Government must change course.

● PART 2 ends:-

TUC booklet on Unemployment updated

PART 3 begins:-

Ken Murray to ch of ex + att of 24/3/87.

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