


PRIME MINISTER

Ralph Harris

1. Herewith copy of a superb speech which he made in the House of Lords on 25th November.
2. You may like to mention this to him, when he comes in for a drink (with the signatories of the famous letter) at 6.30 p.m. tomorrow evening.

6th January, 1982


IAN GOW

some of the ideas that we have heard, especially those about work sharing which the noble Baroness, Lady Seear, put before us—work sharing by both young people and older people—would help. It was a bold and wise move of the Government to send the Secretary of State for the Environment to come and spend three weeks in Liverpool this late summer and now to have particular responsibility for Merseyside for a further year. We have a powerful and vigorous Secretary of State who is putting repeated challenges to employers; and in a number of situations employers have not responded, often because they feel they are not able to do so.

Let me give an example of one area in which there has been some willing response, just in that area which the noble Lord, Lord Roberthall, has been mentioning about proper training. The Secretary of State challenged the biggest firms in Merseyside to produce between them 3,000 places for training. Let me tell your Lordships that the score at the moment stands at 700. If everything goes very, very well we may reach 1,000. It is a reminder that the actual ability of industry and commerce to respond to such challenges is sometimes limited. And that has been the area in which there has been the most willing response to his different challenges. Let us not put too much hope on what private employers can do without major encouragement, or we may do no more than tinker with the vast problem which many of us believe needs fundamental changes to tackle it.

The present situation is the result of at least five sets of causes: first, structural changes caused by new technology and by changes in the world economy; secondly, social changes such as the role of women; thirdly, individual employers' priorities; fourthly, cyclical recession and, fifthly, Government policies of the day. This Motion focuses only on No. 3 of those five, when, in the face of the other factors, many firms are in a survival struggle. Ignoring structural change will lead us to short-term policies. An upturn in the economy will not necessarily bring more jobs. Industry is slimmer and leaner because it believes it needs to be. It has a good deal of unused capacity against that upturn.

I feel that the noble Lord, Lord Boyd-Carpenter, and others who have spoken are calling upon us to believe that market, efficiently run, will bring back full employment. I believe that to be untrue and to be misleading the country. A sea-change is going on. There are structural changes caused by new technologies and changes in the world economy which mean that the market, as I believe, will not produce full employment or anything like it in the foreseeable future.

For many years of my life, the initials "MCC" had a certain magic to them. I now have the experience of initials crossing from one world to another. Nowadays I have to bow in a different way when the Merseyside County Council tell me something. The Merseyside County Council's sector-by-sector report in May of this year forecast that Merseyside, already at the bottom of the league, is going to have a continuing net job loss of 80,000 further jobs from 1981 to 1986. The point I want to make is that we must face the fact that there is a sea-change in employment patterns and that can only be met by fundamental

changes in attitude. I would ask whether the Government and whether every party would not acknowledge that this is the case. Repeatedly, I am told, most politicians behind closed doors believe it but it is not the acceptable thing to say in public. If a Government reduced unemployment in the next five years, say, to 1.5 million, they would be regarded as having achieved marvels. I want to say that it would not be good enough; for reducing unemployment to 1.5 million, relying on the operations of the market, if it were possible, would probably wipe out serious unemployment in the more affluent parts of the country. But it would scarcely alter anything in Northern Ireland, Glasgow, the North-East or Merseyside.

The noble Baroness, Lady Seear, reminded us of some of the massive unemployment in some areas of Merseyside. I was having my first glimpse of the Scarman Report and it reminds us that Leece Street Employment Office, between 1976 and 1980, fluctuated between 17,000 and 18,000 unemployed. Between 1980 and 1981 the figure went up to 21,000. If we come down to 1.5 million nationally, I suppose we might get back to 17,000 or 18,000. It would change very little of what we have been facing and of what the other priority areas face. When people say that 5 per cent. is an acceptable figure that we must get used to in a nation, that means 10 per cent. in Merseyside, 20 per cent. in Kirby and every area like it; and has done for years.

If we could admit that the market will not produce anything like full employment it would lead us not to wring our hands in hopelessness or to bland statements about how pleasant it would be to have endless leisure; it could lead us to a healthy positive debate about how a country could best use the resources of the very large numbers of people that the market will not require. There are genuine jobs, not make-believe jobs, which are crying out to be done in the community. Each unemployed person costs the state at least £4,500 per annum. Those who are lucky enough to have a demanding, high-earning job, should stop wingeing about taxes and be glad to pay more so that the most precious resources of the nation, our people, may be given work which truly needs doing. It is true that such public spending needs a profitable, slimmed-down industry; but we need to stop setting public and private against each other. Industry and commerce also need good standards of health, education, transport and the rule of law. I hope that as we look at some of the very modest and proper calls that should be made to industry and that responsible industry is trying hard to respond to, we shall not slide away from the much more fundamental debate that we need.

7.18 p.m.

Lord Harris of High Cross: My Lords, I join others in congratulating my noble friend Lord Spens in bringing this Motion before us and for moving it so forcefully. I agree with the kind of approach that he adopted. I should like to have said to the noble Lord, Lord McCarthy, that I would join him in deploring the present levels of unemployment if he would join me in deploring the rising trend of unemployment before 1979. What I think is most deplorable about this saga is the extent to which unemployment has been aggravated over a long period of time by politicians of both parties, animated by nothing more

[LORD HARRIS OF HIGH CROSS.]

lethal than good intentions. It seems to me that diagnosis must start by acknowledging there has been a steeply rising trend in unemployment, along the lines that the right reverend Prelate spoke of, since 1965. If we look back to before 1960, the total unemployment in one year seldom rose above 300,000. After 1965 the average unemployment has never fallen below half a million. Since 1976 it has not fallen in the best year below 1½ million. Yet the whole of that period was not marked by savage deflation; the whole of that period was marked by unparalleled expansion in budget deficits and monetary aggregates however one measures them. We need not be reminded that the result has been a massive and continuing inflation in labour costs per unit of output.

Labour costs per unit of output doubled first in 17 years from 1950 to 1967; and they doubled again in seven years, 1967 to 1974; and they doubled yet again in only five years, 1975 to 1980. It seems to me that this dismal record should direct our search for remedies away from repeated talk of so-called reflation at which the noble Lord, Lord McCarthy, hinted. Instead we should consider the micro-economic effects of increased labour costs on the demand for labour in the market place.

To assist your Lordships, I offer for your consideration a little more precisely than the noble Lord, Lord Boyd-Carpenter, the following proposition from the textbooks that it is difficult to confute. Other things being equal, fewer people will be employed at a higher than at a lower cost. If the noble Lord, Lord Kaldor, were in his place I would appeal to him for support since his own ingenious if somewhat shortlived selective employment tax sought to revive the demand for labour in manufacturing by the process of reducing its cost. All Government job subsidies work on precisely the same assumption.

It follows that all those well-intentioned policies from both parties over the years which have raised labour costs have inadvertently tended to increase unemployment. Why should we lack the candour, or the courage, to assert that many workers have been priced out of work by the operation of coercive trade unionism, the compulsory wages council mentioned by several noble Lords and costly measures of employment protection?

During the past decade or so the burden of excessive wages has been intensified by rising national insurance and other statutory charges which now add 25 per cent. to the wages bills of the employer.

At the same time, the value of these higher wages has been eroded in the hands of the worker by national insurance and taxation which he starts paying at a marginal rate of 37.75 per cent. on earnings as modest as about one-third of average earnings. The damage to incentives is even worse if we allow that much of this high taxation goes to provide social benefits that are often more enticing than net take-home pay from employment.

*A particular example: a married man with two children earning £95 per week from November 1980 would have been £3 a week better off if he had deliberately chosen to be unemployed for six months of the year. That does not allow for the possibility that he might do some work for cash in what is sometimes delicately

called the "unobserved economy". The right reverend Prelate had some hard things to say about the market and created the impression that the figures of unemployment were a great immovable growing mountain of discarded people.

I want to put this to him: despite all the distortions and discouragements to which the market has been subjected, it is surely astonishing that beneath this well-advertised figure of 3 million unemployed we have a very lively labour market, a "dynamic" labour market, in the words of the Manpower Services Commission, in which about half a million new jobs are taken up each month, and in which the Manpower Services Commission estimated that in 1980 there were 7 million changes of jobs in that 12 months.

Unlike my former noble friend the noble Lord, Lord Roberthall, I remain a medium-term optimist. I believe that in the longer run there are improvements in productivity, which companies are already achieving in this severe recession, that will enable the rise in real wages to be resumed without this haunting risk we have faced of pricing our people out of their jobs. Meanwhile if we are truly concerned with hastening the decline in the unemployment figures, it is crucial that wages and salaries are held back—that is to say, held down—not least so that profits can be rebuilt as the only sure guarantee of expanding future jobs.

But more immediately we are faced with less alluring choices. I believe that the most promising positive steps would be to combine a cut in taxes on earnings with a freeing of impediments in both the labour and housing markets. A radical approach would include not only reducing trade union privileges on the lines now proposed by the Government, but in the repeal of wages councils, where I follow other noble Lords, and the misnamed "employment protection". I would go further, at the same time I would start moving to phase out rent restriction and council house tenancy as two of the most damaging obstacles to the mobility of labour.

I agree with the noble Lord, Lord Boyd-Carpenter, who said that so long as social benefits stand above the net earnings of so many families in jobs it is no longer plausible to argue that minimum statutory wage protection remains necessary to keep workers out of indigent penury. Above all, I think that the reduction in Government spending still holds the key to cutting rates and taxes which I believe would do more than any other single measure—in the words of the Motion—"to encourage employers to expand their workforces";

and, I would add, to encourage employees to expand their own efforts to price themselves back into work.

7.27 p.m.

Viscount Massereene and Ferrard: My Lords, I should like to add my thanks to the noble Lord, Lord Spens, for putting down this debate. I also ought to declare an interest as a small private employer. One aspect that has not been broached in this debate is high interest rates. In order to start or to expand a business the average employer has to go to a bank for money, unless he has a lot of cash in the bank, which is rather rare these days and, with inflation, is foolish. People wanting to start businesses or to expand