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Prime Minister

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To: PRIME MINISTER

From: JOHN SPARROW

CPRS Unemployment Study

1. Soon after I arrived at the CPRS I said I would let you have a note on how I saw the study of unemployment progressing. You have since received minutes from the Chancellor and the Secretary of State for Employment which give helpful guidance on the direction of further work. Meanwhile, more and more commentators have expressed pessimistic views about the prospect of any substantial reduction in unemployment for some years ahead.

2. I envisage a final report which:-

- (i) describes the main causes of unemployment;
- (ii) assesses the consequences of a continuing high level of unemployment;
- (iii) examines the prospects for employment in the longer term;
- (iv) outlines the scope and criteria for counter-measures, both for remedying the underlying causes of unemployment and for coping with the consequences.

*This word take long-*

3. On causes, our approach will be to look at recent international experience, to see how far the rise in unemployment in the UK is attributable to factors common to OECD countries, and then to identify and evaluate any causes peculiar to ourselves. In our analysis of international experience, we shall be able to draw on the work being done by Alan Walters and Adrian Smith. With the help of Treasury economists, we are also hoping to distinguish more clearly between the levels of temporary (cyclical) unemployment and structural unemployment. We recognise, however, that a large number of inter-related factors have been at work, and that there is no precise way of disentangling their effects.



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4. We therefore share the view that our examination of causes will have greatest relevance in enabling us to identify remedies, whilst recognising the Chancellor's point that there is value in being able to show how far the causes are beyond the scope of Government action.

5. A strategy for dealing with unemployment must aim both to improve the competitive performance of the economy, and to alleviate the consequences of long-term unemployment. Measures to improve performance cannot individually be expected to have much effect on the immediate employment outlook, but they should make for a healthier economy and thus more jobs in the longer term. Hence we must look, for example, at:-

(i) ways of making the labour market more responsive to market forces, and in particular of eliminating or minimising restrictive activities which limit productivity growth and employment prospects;

(ii) reducing current disincentives to employers to offer more jobs (e.g. by tax changes to reduce the overhead costs of employing labour);

(iii) increasing incentives to (and opportunities for) unemployed people to seek out different kinds of work; and

(iv) new education and training initiatives to make the unemployed more attractive to potential employers and to reduce bottlenecks in key skills.

6. The further work on causes should be helpful in considering the prospects for unemployment to the end of this decade. If we are indeed faced with the prospect of a high level of structural unemployment remaining even when the economy moves out of recession, consideration must be given to the policy implications. The social and political consequences of continuing high unemployment may be serious in themselves, and must not put at risk the longer-term gains of the economic strategy. Attention should therefore focus on the criteria for employment measures in this situation, and on what palliative steps can be taken without hampering the competitive efficiency of the economy.



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7. We hope to produce the report before the end of the summer Recess.
8. I am sending copies of this minute to the Chancellor of the Exchequer, the Secretary of State for Employment, Alan Walters and to Sir Robert Armstrong.

JS.