

Prime Minister

cc Mr. Wolfson
Mr. Hoskyns
Mr. Duguid

MR. LANKESTER ✓

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UNEMPLOYMENT IN MERSEYSIDE

The Prime Minister is discussing measures to alleviate the high unemployment on Merseyside with colleagues on Monday. She might be interested to read Patrick Minford's evidence to the Du Cann Committee (attached). I agree with his analysis that there is insufficient wage flexibility and that real wages in Merseyside at present are inconsistent with tolerable levels of unemployment. In particular the structure has been exacerbated by Labour trade union legislation.

The prescriptions which follow from this analysis are:-

- a. a reduction in trade union monopoly power;
- b. replacing national wage bargaining with bargaining at local level - so that local market conditions can be taken into account and a better equilibrium reached;
- c. a lower level of real social security benefits.

I realise, of course, that there are very real political and practical constraints on all three of these measures. But they are fundamental to a lasting solution of the problem of persistent high unemployment in certain localities. The Policy Unit have been arguing in MISC 14 and elsewhere for measures to break down the national wage bargaining pattern. There is a limit to what the Government can do to affect the structure of bargaining in the private sector. But in the public sector, we could at least show an example by conducting Civil Service pay negotiations at a regional level. These arguments are being considered, but they tend to be trampled underfoot by the very real practical problems they would pose for Civil Service management.

When this issue of regional pay comes forward to Ministers, we must try to ensure that the wider implications for unemployment black spots are not lost sight of.

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pp ALAN WALTERS

30 June 1980]

Professor A P L MINFORD

[Continued

Mr Baker

100. As your university is based on the Merseyside and as the Merseyside is a very depressed part of Britain and has been for a long time, do you and your colleagues in the Economics Faculty at the university have any views as to what could be done to help the Merseyside?

I do not think that is a very short question. The situation on Merseyside, which, as you know, is an area of very high unemployment, is like the situation on Tyneside and Clydeside and some other areas. The problem in my view—I will not speak for my colleagues—that Merseyside faces is that for various reasons there is an inadequate degree of wage flexibility. There is also an inadequate degree of provision for mobility around the area and indeed out of parts of it into other contiguous parts. So the problem of unemployment generally is identical with the problem of unemployment on Merseyside. The problem of unemployment is that we have excessively high real wages. If people on Merseyside are paid more than their productive real wage they will not be employed. The same is true of any other area and any other group of people.

101. But given the nature of wage bargaining in this country, how do you see the circle being broken?

If I could just continue on that point. In an appendix, number 8, I have an analysis of the unemployment problem allied to the analysis of the real exchange rate issue. There I suggest that contrary to the conven-

tional view that we are being kind to the unemployed by paying high social security benefits, we are on the contrary succeeding in raising the real wage—that is the minimum people will accept to work; that the consequence of raising that minimum real wage is unemployment. So while we may be being kind in a short term sense to those who are actually unemployed, we are actually encouraging the very unemployment that we are trying to avoid. So I would say that contrary to that conventional wisdom what we should be doing is trying to ensure that people do have to take work that is available and to be less generous if possible at the margin with real social security benefits in order to encourage a drop in real wages and the necessary adjustment in real wages. That sounds like hard advice but the unemployment problem is not going to be solved by misplaced emotionalism. It will only be solved by people accepting lower real wages and accepting that they have to compete in an extremely and much more competitive world than they have had to compete with in the past. Secondarily, there will have to be attempts made by this Government and probably subsequent Governments to reduce the degree of union monopoly power, in order to prevent unions exacerbating the unemployment problem by marking up their wages over competitive real wages—raising real wages—and so putting more people on to the dole. So the two things are linked and the real problem that we face—which is the unemployment problem—is inexorably linked with the reduction of union monopoly power.

102. From your knowledge of Merseyside do you think that the policy which you advocate—lower unemployment benefits and in fact significantly lower wage increases in the rest of the country—is socially acceptable on Merseyside?

It would be more acceptable than the unemployment rate that is at present on the Mersey. There are an awful lot of people on Merseyside who are in a situation where the best thing they can do is take unemployment benefit and participate as best they can in fringe activities—the so-called shadow economy. I am very grateful for the presence of the shadow economy because it helps to mitigate the problem, to mitigate the waste of resources. But it is by no means a desirable situation.