

# Briefing Note

THE EMPLOYMENT SITUATION

No. 3  
28.1.82.

On January 26th it was announced that 3,070,600 people were out of work, and a debate on the employment situation was held the following day.

## CAUSES OF UNEMPLOYMENT

Opening the debate, Mr. Norman Tebbit, Secretary of State for Employment, outlined the causes of unemployment:

- The World Recession, caused by successive increases in the price of oil. Since the Government took office the price of a barrel of oil had risen from \$14.55 to \$34.00, whilst it rose only \$2 during an equivalent period under Labour. All Governments, whatever their policies, faced this fact. Two million people were unemployed in France, and 1.7 million in Germany, and unemployment there was increasing faster than in Britain.
- Lower Productivity, Higher Pay. Between 1970 and 1980 money incomes in Britain rose 34.5 per cent, output only 17 per cent. Prices rose 188 per cent; unemployment 193 per cent. Labour costs soared and by the autumn of 1980 UK unit labour costs were rising at an annual rate of 25 per cent, twice as fast as in the USA and two and a half times as fast as in Germany.
- Overmanning. Mr. Tebbit said the world recession meant "the great shake-out of labour, aimed at and talked about so often in the past ... happened not at a time of our choice, but at a moment dictated by events" (Hansard, 27th January, col. 907). As world markets contracted, firms shed labour to increase efficiency and competitiveness. As long ago as 1965 Lord Shawcross, a former Labour Minister, warned of "a barely concealed unemployment of several millions" (Financial Times, 11.11.65).
- Restrictive Practices. Mr. Tebbit cited the CPRS report on the car industry, which said it took twice as many workers in Britain to produce the same number of cars as on the continent - largely because of demarcation. British Telecom's Chairman recently admitted his field engineers make only half as many visits a day as those in the USA; 40 per cent of field time is spent on paper work and inter-union wrangles about the operation of new technology are frequent" (Times, 20th January 1982).

## SPECIAL EMPLOYMENT and TRAINING MEASURES

Mr. Tebbit said the Government was spending £4,500 million over three years on special employment and training measures, the bulk of it on school leavers. Over a million youngsters had already benefited from the Youth Opportunities Programme (YOP) and only 15,000 out of last summer's school leavers had not got a place by Christmas. The new Young Workers Scheme offered subsidies to employers who paid young people realistic wages. The Job Release Scheme, already open to men of 63 or 64, was to be extended to men of 62 from February 1st. The Community Enterprise Programme offered 30,000 places to the long-term unemployed.

Mr. Tebbit added that "in dealing with the crisis of unemployment, I have taken the opportunity to improve our standards of training" (Hansard, col. 908). A new Youth Training Scheme (YTS) will, from September 1983, guarantee a year's training to all unemployed 16-year old school leavers. 100,000 YOP places in 1982-83 would be of, or approaching, YTS standard. Support for apprenticeships would be made increasingly conditional on moves towards training to standards rather than age-restricted time-serving. Greater opportunities for adults to retrain, partly through a new "Open Tech", would also be made available.

### ENCOURAGING SIGNS

Both Mr. Tebbit and Mr. Patrick Jenkin, Secretary of State for Industry, pointed to signs of recovery.

- The trough of the recession has passed. Industrial output rose 1½ per cent in the three months to November, and manufacturing output by 1 per cent.
- Productivity is up. Output per man hour in manufacturing rose 8 per cent between the fourth quarter of 1980 and the third quarter of 1981; output per head rose 10 per cent in the same period.
- Pay settlements are lower. Settlements averaged 20 per cent in the 1979-80 pay round; at the end of the 1980-81 round they were around 9 per cent and CBI figures show they are now around 6-7 per cent.
- The number of days lost through industrial action in 1981 was less than a third of the average over the last 10 years, and fewer strikes have started in the last two years than at any time since the war.
- British unit labour costs are rising more slowly than our competitors', including Japan. In the year to the third quarter of 1981 they rose less than 4 per cent, compared to 6 per cent in Japan and the USA, and 13 per cent in France. There is still a long way to go to make up the 50 per cent loss of competitiveness between 1978 and 1980.

Mr. Jenkin said: "The British disease is beginning to yield to treatment because we are treating not just the symptoms but the causes; overmanning, restrictive practices, outdated production methods, poor industrial practices, outdated production methods, poor industrial relations, weak management and pay rising faster than output" (Hansard, January 27, 1982, col.969).

### LABOUR and SDP POLICY

Both Socialist parties favour reflation. For the SDP, Mrs. Shirley Williams advocated a selective reflation of £5-6 billion. She wanted lower taxes, but did not explain how this squared with increased spending. Presumably she would borrow some money, pushing up interest rates, and print the rest, stoking up inflation. She would attempt to contain inflation by "a sensible and lasting incomes policy" (ibid., col. 934). As Mr. Jenkin said, no two SDP leaders can agree what this means.

For Labour, Mr. Stanley Orme wanted an £8-9 billion reflation, coupled with import controls and cuts in VAT and NIS. He would pay for it by raising the PSBR ("we face that squarely", ibid., col. 969), by switching expenditure from unemployment benefit and by using "North Sea oil revenues". Mr. Tebbit called this "economic illiteracy" and added that "unlimited spending out of limited resources is a recipe for economic disaster." (ibid., col. 909).

Mr. Tebbit said 3 million unemployed were a "tragic waste" and could not be contemplated except with "deep regret", but he pointed to the progress made and added: "All the gains could be thrown away in the mistaken belief - in the persistent heresy - that forcing demand into the system at a time when inflation is still too high, when Government borrowing and taxation are too high, can do other than bring the shortest-term relief at the expense of the longest-term disaster." (ibid., col.910)

DH/JLS  
28.1.82.