



Treasury Chambers, Parliament Street. SW1P 3AG
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15 July 1985

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Sir P Middleton
Mr Wicks
Mr Cropper
Mr Lord
Mr H Davies
Sir T Burns
Mr Odling-Smee
Mr G White

The Rt. Hon. Francis Pym MC MP
House of Commons
LONDON
SW1

John H. Pym

THE COST OF UNEMPLOYMENT

Thank you for your letter of 10 July.

I can assure you that I do not accept that unemployment is a necessary consequence of the battle against inflation or of success in reducing public expenditure. It is perfectly possible for inflation, public expenditure, and unemployment to fall together. Indeed low inflation and control of public expenditure make it more likely that unemployment will fall. But success against unemployment also requires other changes, especially among wage bargainers, so that the steady growth in demand we are experiencing is increasingly translated into more jobs.

I do not accept the charge that the Treasury's estimates of the public expenditure cost of unemployment are misleading because they do not include the revenue losses associated with unemployment. The Treasury makes it quite clear when calculations refer to expenditure alone. It has never denied that there may also be a revenue effect, but there is no single measure of it and it is misleading to suggest otherwise.

The revenue calculations you quote assume a hypothetical world in which the unemployed somewhat implausibly find jobs at average wages despite the high proportion of unskilled labour among the unemployed. They also assume that all this happens at no extra cost to the government. It therefore follows that the reduction in unemployment you are considering cannot be the result of additional public expenditure or increased borrowing (with its effect on the level of debt interest).

If you are worried that the Treasury neglects offsetting savings, let me assure you that when we examine proposals for increased public sector capital investment we make full allowance for offsetting savings in expenditure on unemployment and supplementary benefits and any increased tax revenues. In addition we also make allowance for any second-round effects on both the economy and the Exchequer. However, it must be said that these second round effects on output and employment are unlikely to be significant unless one is prepared to take risks with inflation by simultaneously easing up on monetary conditions, in which case any employment gains would be short lived.



I agree that unemployment is the major social problem facing the country today. But the calculations that you present are not relevant to the solution of the problem. It can only be solved by maintaining a stable, responsible financial framework that permits economic expansion and rising employment while at the same time working to improve the performance of the economy and to encourage the private sector to take advantage of the opportunities that exist.

I am sending a copy of this to the Chief Whip.

NIGEL LAWSON

Lawson
Nigel