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Treasury Chambers, Parliament Street, SW1P 3AG

The Rt Hon Kenneth Clarke QC MP
Paymaster General
Department of Employment
Caxton House
Tothill Street
LONDON SW1H 9NF

25 November 1986

Dear Ken,

FILE WITH COP

Thank you for sending the Treasury a copy of your letter of 21 November to Geoffrey Howe.

2. I agree that there is a valuable prize to be gained if we can divert the work of the Social Affairs Council away from social engineering and into measures to remove labour market rigidities. But we must not pay too high a price for that. I am grateful for your assurance that you will concede nothing which would be difficult domestically or inconsistent with our own economic and employment policies. I would like to emphasise four such areas which concern me.

3. Employment is created by competitive businesses making realistic wage settlements, in the context of flexible markets and of sound financial policies on the part of the Government. I think it very important that you avoid changes which compromise that line. In particular, there must be no concession to the view that the problem of unemployment can be solved by reflation. Any clause which could be interpreted in that way would be likely to be used against us.

4. For similar reasons, the preamble on pages 7-8 to the section on long term unemployment would benefit from two changes. The UK has an impressive record of rapidly increasing employment opportunities; in our case, attributing the level of long term unemployment to "the shortage of employment opportunities in general" may be pointing in an unhelpful direction. I am particularly concerned about that phrase in combination with the suggestion that effective action "requires active intervention by Government". I think it important that the first phrase be replaced by something like "rigidities in the labour market" and the second qualified, eg by putting "to encourage the better functioning of the labour market" after "by Government".

5. Similarly, the words "between now and 1990" in the first full paragraph on page 2 might cause difficulties for the Government in forthcoming NEDC meetings and elsewhere; my view is that they should be removed if at all possible.
6. My second area of concern is expenditure from the European Social Fund. An overriding priority must be EC Budget discipline. It is therefore crucial that the resolution should make it clear that we are not advocating any increase in ESF (or other EC Budget) expenditure. I was pleased to see the phrases about keeping within available resources in the third indent on page 2 and in the first line of the last paragraph. I think it very important that these phrases should not be weakened.
7. Thirdly, the exercise could become self-defeating if too much were to hang on the social partners or if more weight were put on maintaining social protection. I very much hope that you will be able to avoid any further concessions here.
8. You may also be aware that NEDC on 3 December will consider the Autumn Statement, with the EC Annual Economic Report taken as a relevant document. You may want to check the outcome of the NEDC in case it is relevant to the "social dialogue" and "social partners" points on pages 2 and 8 of your draft resolution. We propose to take the following line at NEDC:
- a. that "social dialogue" means dialogue between management and the workforce, without Government interference;
 - b. that, while we do not wish to discourage such dialogue, we believe that it is most valuable, not on a national or regional level, but in the factory, workshop and office;
 - c. that it has a role in the discussions of such basic problems as the need for lower unit labour costs.
9. Fourthly, it is important that the resolution should include nothing that could add to pressure for extra UK public expenditure.
10. I would be grateful if you could also insert "industrially relevant" before "research and development" in the preamble to the enterprise section. The sixth indent on page 1 would be improved by the addition of the words "soundly based" before "economic growth".
11. I understand that from 1 December you will have to negotiate the text without further reference to your colleagues. But it would be most helpful if your officials could keep mine closely in touch, and in particular could let them have a copy of the draft as it emerges from the working group meeting on 1 December.
12. I am sending copies of this letter to the Prime Minister, Norman Fowler, Kenneth Baker and ~~to~~ Paul Channon; and to Sir Robert Armstrong and Sir David Hannay.

L. ever

Peter

PETER BROOKE

EURO PAU : Budget PT33

