

SECRET

Prime Minister

PRIME MINISTERUNEMPLOYMENTI. POLITICAL BACKGROUND

Many people were surprised that the sharply rising level of unemployment never came to be an "Election issue" in the way that was expected. Clearly, the Government did to some extent manage to convince people that it was taking the only realistic means available to deal with what was overwhelmingly a world problem. Historically, there was in fact little reason to expect a Government to be thrown out in such a situation. In fact, it was pointed out a couple of years ago (in the Spectator!) that the most likely parallel would be 1935 and not 1945.

But I doubt very much whether the same benefit of the doubt will be given to the Government at the end of this Parliament. Indeed, the 1935 landslide for the National Government had turned into a bare majority in the opinion polls at the outset of World War Two, and by the middle years of the War, the Conservatives were lagging far behind the Labour Party. I do not believe that the War was the only factor in this.

Unless we are seen to be making progress in reducing unemployment by the second and third years of this Parliament, a feeling of impatience and frustration may build up very quickly. The comfortable refuge is to imagine that the Opposition will still be hopelessly split by that stage and that, in the ensuing General Election, the Conservatives could still hope to survive, even on a reduced percentage share of the poll. But there are other possibilities:

- (a) the Alliance makes further progress at by-elections and in the opinion polls, and becomes regarded as the settled major opposition party, and is thus well able to take votes from the Conservatives and looks like a viable alternative Government: and
- (b) (much less likely) the Labour Party pulls itself together, pays attention to what the electorate wants, and reasserts itself as a natural responsible opposition.

The point is that, regardless of whether (a) or (b) turns out to be the case, the voters are capable very quickly of fixing on the most likely alternative as soon as they weary of the status quo.

II. REDUCING UNEMPLOYMENT

At present, our efforts to reduce unemployment can be divided into four parts:

- (a) Improvement of the economy generally. We believe that our measures are designed to create a low-inflation, low-interest rate, high-investment, high-technology economy, and that this will bring new jobs with it, although we are well aware that it will destroy old jobs as well. What nobody knows is the exact differential between the rate of creation and the rate of destruction. How soon will Hector Laing's new catering businesses replace the jobs lost, in the factories he has had to close? I attach Blake Baker's article on Corby which shows the potential time-lag. Corby has had dazzling success in attracting new industry, but male unemployment is still 22.5 per cent there.

Recent forecasts for the economy produce closely comparable forecasts for the rate of inflation and for economic growth, but with wildly differing estimates for unemployment, ranging from 1.8 million to over 4 million and higher still. In the state of our ignorance, we cannot therefore rely on a healthy economy alone to reduce unemployment to tolerable levels.

- (b) We also intend to reduce barriers to employment such as Wages Councils, Employment Protection legislation and all the myriad obstacles posed by trade unions. We are convinced that the removal of these obstacles will reduce unemployment, but again we cannot be certain about the time-lag or the size of the reduction.
- (c) Some of us believe that the gap between family income in work and family income out of work makes work unattractive for many thousands of people, and so adds to unemployment.

Various measures to remedy the "why work" syndrome have been proposed. After carefully studying most of them, I must confess that, in the short to medium term, the more ambitious claims made for these remedies seem unconvincing:

- (i) Those workers with the highest "replacement ratio" (where dole income is near to work income or actually exceeds it), are mostly family men who, all studies agree, are the most determined work-seekers: and, in any case, form only a small minority (around 20 per cent) of the unemployed. The idlers, or those who make the rational calculation that work is economically futile, are mostly young single people for whom the gap between the dole (about £20 a week) and even a manual wage (£70-£90 a week) is quite considerable. The natural conclusion is that where these people really do not try to seek work, it is not because of the tax-benefit linkage.

We are well aware of jobs which remain unfilled because they are menial or tedious, eg in catering and cleaning. But simply to deplore the "workshy generation" is not a solution. I doubt whether it would be politically possible, even if it were desirable, to abolish social security for the under-21s, as some have suggested. Nor would it be possible without a similar outcry to reduce drastically family income where the husband is out of work. At the same time, nobody has yet produced realistic means of inducing people to take jobs they do not wish to take. Yet if people do not "choose" to work, at least it ought to be possible to see to it that as few of them as possible are classified alongside those who genuinely cannot find jobs.

- (ii) Some people have argued strongly for the introduction of a "cap" on benefits so that an unemployed man should not be able to receive more than, say, 70 per cent of his in-work family income. It was alleged that this cap system kept unemployment

much lower on the Continent, but that argument became much less convincing as soon as unemployment in France and West Germany started rising so rapidly. The truth is that if you allow for compulsory military service, earlier retirement ages and the sending home of gastarbeiter, there is not much to choose between unemployment rates in most Western countries, even in those like the United States, which are much less generous to their unemployed people than is the British welfare state.

- (d) Our final method of reducing unemployment has been to reduce the size of the working population. This has been happening, intentionally and unintentionally, throughout this century. If the school-leaving age were still 14 today, and if statutory retiring ages had not been introduced in the state insurance schemes, no doubt the registered rate of unemployment would be, not 3 million, but 5 or 6 million. The "working population" is an arbitrary definition. And so is a "working life". Indeed, the latter varies between different social classes in this country. Until recently, it was traditional in the manual working classes to expect work to start at 16, whereas in the professional classes, who expected their sons at any rate to attend university or go into the services, the possibility of becoming unemployed might not arise until the age of 21 or so. It is worth noting that our special employment measures have so far kept unemployment from rising much above 3 million, and the efforts of the TUC to talk about "4 million jobless" have not caught on.

It's the headline total which counts. There is no doubt that the reduction of the working population is the most immediately effective means of reducing the rate of registered unemployment. It is therefore an essential form of "insurance" to be considered against the possibility that, while our economic policies may succeed in creating much greater prosperity all round, they might well fail to dent the unemployment statistics sufficiently quickly.

What we are looking for are methods of "reversible reductions": methods which reduce the numbers on the register without adding permanently to commitments which the economy cannot sustain. Three possibilities suggest themselves:

- (i) Extending the YTS to the age of 18 so that unemployment would not be an option until that age. It would take time to organise further training, but given the speed with which David Young found the 460,000 places already required for the first year, I do not see it as insuperable. In the second year, we would expect more and more young people to find jobs (so long as wages remain considerably higher than the training allowance). And the cost to the Exchequer would diminish sharply as and when more jobs became available.
- (ii) The over-60s. Early retirement is already a highly popular cause and likely to become more so if unemployment persists. Yet the burden of lowering the pension age to 60 for men is not affordable. I think we should re-examine the idea of "interim retirement benefit" which would enable all men over 60 to be paid social security automatically under a special scheme after they had been unemployed for more than 6 months. Naturally, we would have to broaden or abolish the disregards and make the payment as automatic as that of the pension in all respects, except that it would cease to be payable so soon as a man found a job. This scheme might seem a little untidy in its relationship with social security for the under-60s, but I believe it would be widely regarded as adding to personal dignity.
- (iii) The long-term unemployed. Again, it would be the mark of a successful society if we managed to remove unemployment as a long-term option, as Sweden almost managed. The Community Programme is clearly a start and needs to prove itself before we could see whether

it would form a basis for a scheme which offered permanent community work to anyone who had been on the unemployment register formore than 2 years.

If these three measures were prepared together over the next couple of years, I believe that we would be felt to have responded to unemployment in a way which so far we are not regarded as having responded. We would have removed from the register the under-18s who had not properly entered the labour market and the over-60s who had, in all but name, left it; and we would have offered some prospect of occupation to the long-term unemployed.

At present, we are "forgiven" because the problem has hit the Western world hard and we are taking hard and determined measures to reverse it. But as and when other countries return to fuller employment, the danger is that we shall be forgiven no longer, unless we too have begun to reduce the numbers on the register from 3 million to nearer 2 million. I am convinced that unemployment will eventually come to arouse stronger political emotions in this Parliament than it did in the last.

And the only reliably effective insurance against it is to reduce the size of the working population. No doubt this would be one of the subjects you will want to discuss at your September meeting. But it is obviously also relevant to the earlier discussion of Special Employment and Training Measures.

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FERDINAND MOUNT

PERSONAL VIEW

Corby on the Right path

LAST time I was in Corby three years ago, it was a disaster area: 6,000 steel redundancies in a one-industry town.

It was also a surprise to go back. Sited in the middle of Northamptonshire it is a new town, with piazzas and tree-lined avenues. It is not a steel town like Sheffield or Duisburg. It is hardly a steel town any more.

The people — Glaswegian accents on the streets — are friendly and helpful. The only hotel is no longer called the Strathclyde, but the Grosvenor House, although everyone still refers to it as the Strathclyde.

It was two days before polling day. The local working men's club, when I visited it, was full of young Jobs Marchers. I was told aggro was planned when Norman Tebbit came to speak at Corby the next evening.

So it proved. The front rows were occupied by pretty tame Tory supporters. The rear was full of raving, chanting Far Lefties, determined not to give Mr Tebbit a hearing. It was an enjoyable shindig if you like a barney. Mr Tebbit gave better than he got.

Back at the hotel, the porter said: "Don't think, Sir, that that is typical of Corby." One day later, Corby (with a Labour council) voted Conservative.

I do not think the explanation lies wholly in the middle-class villages that surround the town of Corby. I suspect it was a vote for enterprise, not just "private enterprise," but also self-enterprise, publicly assisted enterprise, self-help—the philosophy that you get up off the floor of the ring if you have been knocked down, and fight back.

For Corby is one of the success stories of this country in recovering from adversity. It has learned how to promote itself. When down and out, it went looking for jobs.

It got much help. It won more than £200 million in private investment, backed by £50 million in Government aid, as well

BLAKE BAKER on the town Labour lost despite its long dole queues

as £70 million from the European Commission after an enterprising trip to Brussels.

More than 200 new firms have come. To go round the enterprise zone is an eye-opener after three years. Everywhere, there are spanking new factories, large and small: Avon Cosmetics, with Euro trucks lined up outside, BMCL Plastics, a giant flour mill like a power station, small firms, cabinet makers, reproduction furniture, alloys, plastic cutlery, Commodore computers, British American Tobacco, its largest plant in Europe, food firms.

Also the British Institute of Management and, surprise, the Oxford University Press with a distribution centre for 12 million books are there. More firms are coming, such as RS Computers, expected to employ 1,000 people.

Much of the credit for this is due to the redoubtable Fred McClenaghan, director of industry, employed jointly by Corby district council and the Commission for New Towns.

Recently, Corby had a large advertisement in this newspaper, headed "Corby Works Better." Corby, it pointed out, has a market of 30 million people within 100 miles, and is "slap-bang in the middle of the most buoyant, profitable market in the U.K."

It listed a dozen financial incentives for firms moving to Corby. Nor is that all. Corby has produced ECORBYST, comprising a series of articles by distinguished writers published in the ECONOMIST.

There are brochures on the beautiful countryside, with stone-built villages, surrounding Corby. Another on wildlife and walking. Yet another on sport facilities: also, "Corby Works."

The newest project is Wonderworld, a Disneyland-type leisure and education complex costing about £200 million, which could create 3,000 new jobs. A mil-

lion trees and shrubs are to be planted in Corby.

The old steelworks, which dominated the town like a row of black teeth, has been demolished at a cost of £16 million, freeing another 250 acres for redevelopment.

All is not yet well in Corby. Male unemployment is still at 22.5 per cent., female at 14 per cent.; 19.5 per cent. overall. Unfilled vacancies are a mere 268, against almost 6,000 jobless. Since 6,500 were made redundant in the steelworks closure, leaving 2,700 still employed at the tube plant, Corby, as elsewhere, has been otherwise affected by the recession.

Nevertheless, 3,000 new jobs have been filled. Women have been going back to work! There is a demand for bookkeepers with computer skills, and other white-collar workers. Fitters, welders and similar skilled workers have been placed in work.

Government re-training goes ahead. Although it has a Labour council and now a Tory MP, running of municipal affairs is rather non-partisan. Three years ago, Corby had a large estate of unoccupied council houses, being vandalised. So, with many redundant steelworkers having thousands of pounds in pay-offs, the council has been selling 1,000 a year, many of them derelict, at knock-down prices, £2,000 or less. Council staff were reduced by more than 20 per cent. This year, Corby cut the rates by 25 per cent.

Corby is a remarkable example of how a one-industry town, but with an industrious population, can, after a disaster, pull itself up by its bootstraps. Instead of steel, there are now electronics and a host of modern industries, new skills.

It has been achieved by a combination of government and public aid, private enterprise and self-enterprise. In its small way, Corby is an example of the transformation which is taking place in Britain.



10 DOWNING STREET

From the Private Secretary

28 June 1983

Dear John,

I attach a copy of a paper recently put to the Prime Minister by Ferdinand Mount, on dealing with unemployment.

The Prime Minister has asked me to send copies of this paper, on a strictly personal basis, to those who will be attending her meeting at 1015 tomorrow morning.

I would be grateful if you could ensure that the paper is neither photocopied nor seen by anyone apart from yourself and the Chancellor. I make a similar request to the other Private Secretaries to whom I am copying this letter - Imogen Wilde (Department of Education and Science), Barnaby Shaw (Department of Employment), Alex Galloway (Chancellor of the Duchy of Lancaster's office), Jonathan Spencer (Department of Trade and Industry) and Julian West (Department of Energy).

Yours sincerely,

Michael Scholar

John Kerr Esq
HM Treasury