Private and confidential

National Economic Development Council

Action

(2)

Prime Minister

To see pages 3 & 4 and Chancellor's summing up

AT 15/12

1

NEDC(83)10th Meeting

MINUTES of a Meeting at the NATIONAL ECONOMIC DEVELOPMENT OFFICE, Millbank Tower, Millbank, London SW1P 4QX
on Wednesday, 7 December 1983, at 10.00 am

Present:

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer

Sir Donald Barron

Mr R Bickerstaffe

Mr T Duffy

Sir Campbell Fraser

The Rt Hon Patrick Jenkin MP
Secretary of State for the Environment

The Rt Hon Sir Keith Joseph Bt, MP
Secretary of State for Education and Science

Mr R Leigh-Pemberton

The Rt Hon Lionel Murray OBE

The Rt Hon Peter Walker MP
Secretary of State for Energy

Mr D Young

Sir Terence Beckett CBE

Mr J S Cassels CB

Mr A M Evans

Sir George Jefferson CBE

Mr C Jenkins

The Rt Hon Tom King MP
Secretary of State for Employment

Dr J S McFarlane

Mr J J R Pope

Mrs R E Waterhouse CBE

The following were also present:

Mr Norman Lamont MP, Minister of State for Trade and Industry

Mr Harry Kleeman, Chairman of the Plastics Processing Economic Development Committee

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Mr J Anson
HM Treasury

Mr N Attenborough
Department of Trade and Industry

Mr B Barber
Trades Union Congress

Mr S Beach
National Economic Development Office
(for item 4)

Sir Terence Burns
HM Treasury

Mr J Caff
Confederation of British Industry

Mr W Callaghan
Trades Union Congress

Mr J Chapman
Department of Trade and Industry

Mr A Dawson
Confederation of British Industry

Mr L Dicks-Mireaux
Bank of England

Mr J Driscoll
Nationalised Industries' Chairmen's Group

Mr C Driver
National Economic Development Office
(for item 2)

Mr C J Farrow
Bank of England

Mr M Hall
HM Treasury

Mr I Helps
National Economic Development Office (for item 4)

Dr D Higham
Confederation of British Industry

Mr J R S Homan
National Economic Development Office

Mr A G Johnson
Department of Employment

Dr M Howe
Department of Trade and Industry

Mr R Hudson
National Economic Development Office

Mr B Kalen
HM Treasury

Mr P Kane
Trades Union Congress

Mr D Lea OBE
Trades Union Congress

Mr C Leach
National Economic Development Office

Mr K McDowell
Confederation of British Industry

Mr P McGregor
National Economic Development Office

Mr P E Middleton
HM Treasury

Dr D Morris
National Economic Development Office

Mr B Naisbitt
National Economic Development Office (for item 2)

Miss M O'Mara
HM Treasury

Mr S Pride
Department of Trade and Industry

Mr G Reid
Manpower Services Commission

Mr T Rickett
National Economic Development Office

Mr C Smee
HM Treasury

Mr T Sparrow
National Economic Development Office

Mr P Street
Department of Trade and Industry

Mr I Urquhart
Department of the Environment

Mr J R Wakeley
Department of Energy

Mr E Wright
Department of Trade and Industry

Secretariat:

Mr P V Dixon

Mr D A Truman

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1. INTRODUCTION

The CHANCELLOR OF THE EXCHEQUER said that apologies had been received from the Secretary of State for Trade and Industry, who would be represented by the Minister of State; from Mr Basnett and from Mr Utiger.

2. CHANCELLOR OF THE EXCHEQUER'S SPEECH OF 17 NOVEMBER AND AUTUMN STATEMENT (NEDC(83)60)

The CHANCELLOR OF THE EXCHEQUER said that, since the turning point in early 1981, output had grown by 5 per cent, faster than predicted by most forecasts (including the Treasury's), and in 1983 was expected to be 3 per cent higher than in 1982. Inflation at 5 per cent was lower than most had predicted, and the profitability of many companies had improved, admittedly from a very low base. The supply side factors suggested that growth in output could be sustained in 1984. Fears had been expressed that consumer demand might fall back, but overstimulation had been a mistake in past cycles and experience showed that recovery was often led by the consumer. Continuing recovery in the USA and better performance in Europe should assist exports, as should developments in productivity and competitiveness. The Treasury expected higher investment, as did the CBI. A recovery was now beginning in employment, with unemployment levelling off. The Treasury's forecast for 1984, a shade under 3 per cent, was towards the upper end of the narrow range of forecasts reported by the Financial Times, averaging 2.4 per cent. The PSBR in 1983/84 looked like being £2 billion above the forecast in spite of the July measures. On the assumption that the figure of £8 billion projected for 1984/85 was to be held, a small increase in taxation, perhaps £0.5 billion, might be needed. But there was a considerable margin for error. Overall there was a hopeful prospect of growth in output without resurgence of inflation.

MR MURRAY said that it was valuable to have the Statement and he looked forward to the day when it was put to the Council with options for discussion. Both optimists and pessimists could be wrong and he would like to think the Treasury's forecasts were right, except on unemployment where there appeared no prospect of a substantial fall. The success of exports was critical, and the TUC was less optimistic. If, as stated, the picture was of faster growth than expected, but with higher PSBR and less inflation, it appeared not to match the Government's views of the inter-relationship of these factors. There could be room for more growth, on which the TUC would be submitting ideas to the Chancellor.

SIR TERENCE BECKETT said that the Chancellor was already aware of the CBI's views. They would like to see growth sustained, but their estimate for 1984 was lower, because of lower consumer demand. He was worried about imports since we were still at least 20 per cent uncompetitive. Investment, though growing, was dependent on the level of profitability, which was below that in competitor countries. He was concerned about the second half of 1984. The priority should be to reduce the costs of industry; this involved a role for the CBI on pay; there was also a need to reduce the burdens imposed by the Government. It was disappointing that the National Insurance Surcharge had not been abolished. Raising the National Insurance contribution of the higher-paid would cost industry £90m a year; it was to be hoped that the reduction in the External Financing Limits of the nationalised industries would not result in higher energy prices, on which we already compared unfavourably with Europe. For choice, business costs should be reduced rather than the real level of income tax.

The SECRETARY OF STATE FOR THE ENVIRONMENT said that the forecasts for the construction industry were encouraging, with orders 16 per cent up compared with 1982 and public sector construction being sustained at a high level; following an intervention from DR McFARLANE about the obfuscation of the split between current and capital expenditure in public accounts, he added that the shift from rebuilding to rehabilitation - including so-called "enveloping" schemes - could make definitions misleading.

The CHANCELLOR OF THE EXCHEQUER said that the next Public Expenditure White Paper would give figures for capital and current expenditure. But it was not self-evident that capital was preferable to current; for instance, that education would be improved if more were spent on buildings and less on teachers. The SECRETARY OF STATE FOR EMPLOYMENT made a similar point relating to the construction and maintenance of motorways. He added that there were indications of a higher level of Christmas spending. Import content was a worry: if British industry had not lost market share in the last ten years, there would have been one and a quarter million fewer unemployed.

SIR DONALD BARRON suggested the need for new accounting conventions in the energy field to prevent undesirable repercussions on targets and prices.

MR DUFFY urged the need to restore the purchasing power of the unemployed. For the sake of jobs, trade unions had accepted low wage increases. There was a danger of being lulled into a sense of false security. The Government should respond positively to the CBI's request for the abolition of the NIS; to the view that German and Japanese industry received subsidies not open to the British; and to the need for world markets to be open to British exporters.

In drawing the discussion to a conclusion, the CHANCELLOR OF THE EXCHEQUER replied to MR JENKINS that the Government was not conducting contingency planning for import controls.

The Council:

(i) noted the Chancellor's Autumn Statement as circulated with NEDC(83)60.

3. "WHERE WILL THE NEW JOBS BE?"

The CHANCELLOR OF THE EXCHEQUER said that NEDC(83)58 and NEDC(83)59, in spite of differences, revealed a wide area of common ground. Both papers rejected counsels of despair and recognised that economic change led to rising prosperity. The common ground included the importance of productivity growth; the long-term decline in employment in manufacturing and increase in services; the reduction in hours of work but increase in part-time working and participation rates; lack of success in past attempts to predict the nature of new jobs; the rejection of explanations blaming technical change for unemployment; the importance of performance on the supply side of the economy. On the other hand, there were differences of view on the treatment of demand; and he was sceptical about predictions of a medium-term "jobs gap". He suggested that there should now be further work onthe implications of new technology; the respective roles of services and manufacturing; education and training; impediments to the creation of jobs.

MR MURRAY welcomed the Treasury paper's attention to the main issues, though he took exception to some of the obiter dicta. Sustained growth was a condition for success in the aim of using resources fully; but he agreed that studies in the present context should avoid macroeconomic futurology. The TUC believed there had been a break in trends: until recently, jobs lost in manufacturing had been balanced by gains elsewhere but they now saw a five million job shortage by 1990. The Chancellor had given only a vague answer on whether this was reversible. The continued decline of manufacturing was not inevitable. It would be wrong to suggest that incomes in the UK were too high, since some countries with higher incomes grew more quickly; and the growth of the incomes and expenditure of consumers might still be insufficient to stop employment falling. If more jobs developed in the (mainly non-tradeable) low-wage services sector, it raised the question whether the high-wage tradeable part of the economy would be big enough. The Government's insistence on job growth being in the private sector appeared to be based on no more than faith. Both papers emphasised the need for adjustment, but there should be a clear idea of what we were adjusting towards. The US was interesting, but not a model. In the UK there was the problem of creating confidence and also of reducing the cost to those on whom the burden of adjustment fell. Discussion of the "supply side" involved the contentious areas of the size of the public sector, wages and so on: he had never been averse from looking at the supply side, provided that the demand side was covered also, but the arguments should be conducted on the basis of joint and fuller analysis than in the past. A group of senior officials should therefore identify the areas for discussion.

SIR CAMPBELL FRASER thought that the papers had more in common than Mr Murray suggested. The CBI wanted to be positive on reducing unemployment, but not by means of massive reflation. The TUC's paper had been researched and argued well, but he did not endorse the "jobs gap" of five million. Unemployment was in part cyclical but also in part structural. The rise of employment in services might not continue in the face of rising productivity in information-using industries. The distinction between manufacturing and services no longer made sense because of the interdependence of the two, and could lead to policy mistakes. Further work was needed on changing patterns of work, training, impediments to labour mobility, the role of profits in job creation, competitiveness, and the encouragement of technology. The Group of Four should provide a programme.

The SECRETARY OF STATE FOR EMPLOYMENT welcomed the initiative, which he saw as a test of the Council on its central concern. The further work should avoid the trap of politically-charged areas such as the "jobs gap". He congratulated the TUC on their research, but would wish to challenge some aspects of the paper, such as its dismissiveness of small firms and the Enterprise Allowance. Follow-up work should include lessons from other countries, education and training, mobility and impediments to new jobs. The statistical classifications needed to be looked at, for instance concerning the information sector; but he did not favour a total upheaval.

MR DUFFY said that the subject raised difficulties for both sides, but it was essential to deliver a successful outcome. He was ready to discuss any area, including that of wages; but in a democracy change depended on discussion. Some companies were showing that technical change could be accepted and could provide jobs. He raised the question of import controls and suggested that the UK should be as nationalistic as competitors. Unions would be more inclined to look beyond the immediate pay packet if managers also went without big increases for the sake of ploughing profits back into their companies. A continuing dialogue was needed to remove the cancer of unemployment.

THE DIRECTOR GENERAL said he said he was encouraged by the start of the discussion. North Sea oil was an omission from both papers - through its effect on the exchange rate, part of the economy had been weakened; the rate of exploitation would remain an important, though indirect, influence. In view of the range of questions in the papers, he suggested that the material should be divided into manageable pieces of work which could be discussed in greater depth by the Council. The overall context was set by the question of what needed to be done which in total would match the task facing the country. He identified four possible areas for further work: (a) complementing the study of the US with work on other countries; (b) a study of the balance between sectors (services/manufacturing/oil); (c) obstacles to the creation of jobs, including the influence of tax and social security on employment and investment; (d) the role of profits and investment and their relationship with technology productivity and unit labour costs. A working group of the three parties and himself might be able to suggest an agreed programme of work to the Council in February.

The SECRETARY OF STATE FOR ENERGY said that peak production of oil might continue for two to three years. The capacity which had been developed for off-shore supplies could be used in the development of new export markets. We had expertise also in other areas of energy technology. In general it would be necessary to identify markets where there would be growth in the future, influenced by changing patterns of world monetary flows, together with developments in competition.

SIR TERENCE BECKETT mentioned Germany and Japan as countries worth studying. The US was a strange mixture of high technology but poor growth in productivity. He agreed that the split between manufacturing and services was artificial; and looking to the services for growth was dangerous, since, directly or indirectly, most services were dependent on manufacturing.

MRS WATERHOUSE stressed the interdependence of manufacturing and services as a result of new products (eg home freezers or micro-computers) creating a demand for many associated goods and services. The changes in patterns of work which were occurring (for instance, through flexible hours and the introduction of new technology) could profoundly affect the conventions of employment as between men and women.

The SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that neither paper paid enough attention to the entrepreneur - the market hunter and job creator - who might be a minnow or a giant. There was also the business re-starter, who applied drive to regeneration as exemplified in the management buy-out. Cooperatives, if not subsidised, were group entrepreneurs.

MR JENKINS criticised the absence of projections in the Treasury paper. The reason for the success of the off-shore supplies industries was Government policy; a comparable steer might be needed today. He agreed that mobility was important and welcomed the Fowler Committee on pensions, which currently were sustained by the abandoned money of those who dropped out. The prospects for the service industries were not encouraging, because education and health, where much of the growth had been, were the subject of Government reductions and new technology might cause reductions in employment also in banking and insurance. The UK would not revive on Koreanisation of its already low wages; it needed more expenditure on infrastructure.

The GOVERNOR OF THE BANK OF ENGLAND said that more competitiveness would lead to faster expansion and more jobs. There had been a rapid deterioration in the current account of the balance of payments, which implied a substantial loss of jobs; earnings since 1980 had risen 7½ per cent faster than the average of other countries. It remained essential to have a strong manufacturing base, though the appropriate measure was output rather than employment. The impediments to the creation of jobs should be investigated, including the financial ones. He mentioned that desirable rationalisation might sometimes be inhibited by its adverse effect on a company's balance sheet.

The MINISTER OF STATE FOR TRADE AND INDUSTRY said that a higher proportion of the workforce was in manufacturing in the UK than in Japan, but the contribution of manufacturing to output was higher in Japan. Leisure industries had been growing in the US and could do so in the UK - service employment had been growing even in the recent past. In the long run, small firms had a potential contribution, inadequately acknowledged by the TUC.

MR EVANS questioned how the changes recommended by the Chancellor could be actually brought about. He saw the need for bilateral discussions at the top to cover market prospects, competitiveness, training, technology. This could provide guidance reflected in institutions at company level. Whether unemployment was "structural" or not made no difference to the person who was unemployed. The phrase "waiting for work" might carry less stigma; the level of benefits was not just a political problem.

MR POPE stressed the importance of rapid exploitation of new technologies and saw hopeful signs in the spread of computers in homes and in schools. Skills were crucial for employment prospects, and those who had entered the labour market without much training presented a particular problem.

DR McFARLANE, stressing the importance of the discussion, saw conditioned reflexes in both papers. The Treasury regarded change as the norm but thought all change could be left to the market; the TUC thought that the "disjuncture" was reversible and that the Government should therefore reflate. Neither was radical enough. Insufficient attention was given to skill-saving technology, the newly-industrialising countries (NICs), the North Sea, or the capacity of economies to change in sudden leaps. The present problem was because the world recession, new technology and the impact of NICs coincided. Solutions would depend on new and radical thinking.

SIR DONALD BARRON mentioned the correlation, established by the Clare Group, of profitability with value-added and employment. Referring to mobility, he stressed the importance of looking at the taxation of the privately rented sector; the SECRETARY OF STATE FOR THE ENVIRONMENT commented that the decline of that sector, where mobility was greatest, had been a disaster, with improvement stymied by threats to repeal the shorthold legislation - the subject was under active review and tripartite study would be helpful.

MR BICKERSTAFFE suggested that if the references to pay in paragraphs 3.21 and 3.22 of NEDC(83)58 were intended to mean "lower" pay, they should have said so. The CHANCELLOR OF THE EXCHEQUER referred to the need for lower unit labour costs.

MR YOUNG urged the need to heal the schism between training and education, with the modern equivalent of "the 3-Rs" in schools. Contrary to criticisms, the Enterprise Allowance was going well; and, if demand on the Youth Training Scheme was less than expected, this was because more young people were going into jobs - the Christmas undertaking would probably be met. The need for mobility was illustrated by placement rates of close to 100 per cent on the part of Skillcentres in the south, while there were unplaced trainees and queues for jobs 150 miles away. The US had lessons to offer on adult training (paid for by the individual).

MR MURRAY described the discussion so far as having been the easiest part of the exercise, which would now have to move carefully forward on thin ice. Many ideas needed to be put into the pot, including those of the CBI, whose interest in competitiveness was shared by all. He still saw value in trying to predict the broad size of the problem. It should be tackled in a step-by-step approach, first where there was most prospect of agreement and facing more contentious issues later. A programme should be proposed by senior officials. The TUC and CBI might be able to do some work jointly.

The CHANCELLOR OF THE EXCHEQUER, summing up, said that it had been one of the most important discussions at the NEDC and was right at the heart of Britain's economic problem; but it was only a starting point. There was overlap on some of the approaches, though not on the "five million jobs gap"; he regarded the forecast on which that was based as pessimistic, and it would be interesting to look at others. The Council had shown a clear desire to follow up with further studies, in which some ingredients - though the list was not exhaustive - were as follows:

(a) the experience of other countries, for instance covering flexibility in patterns of work and the split between services and manufacturing;

(b) implications of new technology;

(c) the TUC's discussion of an information sector;

(d) the CBI's thoughts on profitability in relation to jobs;

(e) education and training - to be followed up in January;

(f) the impediments to the creation of jobs, involving topics such as pensions, housing, competition and labour market issues.

The Group of Four should refine the material and report to the Council.

The COUNCIL:

(ii) noted NEDC(83)58 and NEDC(83)59 and the summing up by the Chancellor of the Exchequer;

(iii) agreed that the Director General, in consultation with Sir Terence Beckett, Mr Murray and the Permanent Secretary to the Treasury, should supervise the preparation of a programme of work and report to the Council;

(iv) agreed that in public discussion of the meeting there should be emphasis on the points of agreement and the joint desire to carry the studies forward in a positive spirit.

4. SECTORAL REPORT: PLASTICS PROCESSING

MR KLEEMAN, introducing NEDC(83)61, said that the raw material was the only common factor linking the industry. There were two broad categories of processor - those with their own final products and those, including many small firms, who provided a components service. Packaging accounted for a third of plastics usage and building for about 17 per cent. Employment in the industry had dropped to 200,000 and automation was likely to reduce it further. The EDC had identified a need for a clearing house for information on plastics and with financial assistance from the DTI, the British Plastics Federation (BPF) now operated the Plastics Advisory Service (PAS). An investigation undertaken with the Electronics Consumer Goods EDC on the quality of plastics components supplied to television set makers had opened the way to huge improvements in both industries. The results of an inter-firm comparison survey were now being distributed, including a "self-analysis kit". The biggest problem was communication; the EDC was using newsletters, working on guidelines on communications within companies and had organised a conference on "British plastics - the next ten years". Competitiveness was the chief current topic, covering scheduling and costing methods, the use of robots and, together with the Gauge and Tool EDC, moulds. The EDC supported the Plastics Industry Training Board and would welcome greater emphasis on plastics in the curricula for engineering students. The EDC would like to see more emphasis on research and in particular that the Polymer Engineering Directorate (PED) should receive more funds. Investigation had shown that the average age of machinery used by the industry compared unfavourably with continental competitors and the EDC supported the approach made by the BPF that the Government should give plastics processors the same help that metal processors received under the Small Engineering Firms' Investment Scheme (SCFIS).

The MINISTER OF STATE FOR THE DEPARTMENT OF TRADE AND INDUSTRY congratulated Mr Kleeman and the EDC on its self-help initiatives, in particular the self-analysis kit. The industry was in the forefront of technology and had the potential for growth. The DTI had supported R&D and innovation, as was evidenced by their help for the PAS. MR MURRAY supported the retention of the Plastics Processing ITB; but members of the EDC were anxious that the PED should retain financial support. He shared the view that it was anomalous to confine SEFIS to metal working. The MINISTER OF STATE confirmed continuing financial support for the PED and noted the representations on SEFIS, which the Government was considering.

SECRETARY OF STATE FOR EMPLOYMENT added his support to the Plastics Processing ITB. The use of plastics could transform whole processes; for instance, there was a huge potential market for liners for renovating sewers, but this required new systems and engineering and even the largest of the firms interested were too small to take on the risk of development.

The SECRETARY OF STATE FOR THE ENVIRONMENT referred to initiatives by the DTI on quality assurance. The PSA also were trying to raise the industry's performance, but might not have had enough contact with the EDC.

SIR DONALD BARRON noted that the importance of financial services as users of plastics. Electronic funds transfers at point of sale would be a large new development.

In response to a question from MR EVANS about recycling, MR KLEEMAN said that work was under way on PET bottles. Continental legislation on returnable containers was a cause for concern. The EDC hoped to do more work in future on maker/user techniques; they were currently working with the Gauge and Tool EDC and with the Electronic Consumer Goods EDC.

The CHANCELLOR OF THE EXCHEQUER thanked Mr Kleeman for his presentation; the work of this successful EDC had aroused the interest of the Council.

The COUNCIL noted:

(v) NEDC(83)61.

CORRIGENDA

Minutes of NEDC(83) 9th Meeting

Page 5, paragraph 2, line 3: after "exchange" insert "buildings".

Page 7, paragraph 1: add "The extent to which ex-YTS trainees got jobs should be reviewed after the first year".

National Economic Development Office
Millbank Tower
Millbank
London SW1P 4QX

December 1983