



Secretary of State
for Employment

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PRIME MINISTER

ASSISTANCE TO EASTERN EUROPE

As you will be aware I have been undertaking a series of visits to Eastern Europe to explore what assistance we might offer in the labour market area. I visited Czechoslovakia from 13-15 May, Hungary from 3-5 June and Poland from 23-26 June. In all three countries I was able to reach agreements with the Governments for a programme of assistance to be supported by the Know How Fund. I am writing now to let you know of my conclusions on my visits.

Czechoslovakia

As you will know from your own meetings with President Havel in March, Czechoslovakia had not immediately followed the example of Poland with its rapid pace of reform. Nevertheless, it was clear from my talks with Ministers that the Government now wants to make rapid strides towards achieving a market economy, with international competition, convertibility of currency, a significant reduction in state ownership, the removal of price controls and the elimination of subsidies. However there was concern from all parties that such reforms and the inevitable industrial restructuring would lead to a rise in unemployment.

Before my visit my officials had discussions, both here and in Czechoslovakia, with the Federal Ministry of Labour and Social Affairs about British labour market policy and the institutional framework within which it operates. The Ministry identified three

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particular areas where it was looking to Britain for assistance. First, the Czechoslovaks need as a priority systems for training and retraining their adult workforce - I myself visited a factory and training institution in Brno which was making the transition from the armaments industry to civil industrial production. Secondly, they need to develop employment services now that they are faced for the first time with the problem of people out of work. Thirdly, they need to manage large scale structural changes within industry and were therefore attracted by the British success in the promotion of enterprise and the development of small firms.

I was therefore able to agree with my opposite number, Mr Petr Miller, a programme of assistance to be supported by the Know How Fund, and I signed an agreement of co-operation between the United Kingdom and Czechoslovakia for immediate assistance in these three areas, as follows:

- The establishment of arrangements for the training and re-training of adults

Very shortly a small team of officials will visit Britain to study our training arrangements, both through discussions with my Department and on short term attachments to outside organisations. I intend that such discussions should lead to the development of a menu of training and enterprise assistance projects. I have in mind, for example, projects for the Czechoslovaks to analyse skill needs, for the training of trainers or the development of distance learning techniques and systems.

- Support for the development of small firms

We are drawing up proposals for promoting and supporting the development of small firms in Czechoslovakia. Areas which are being considered include the production of training

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materials and the development of local counselling and advisory services for those setting up in business. I met in Prague the newly formed Association of Entrepreneurs, and its leaders clearly recognised the need for such an approach.

- The development of employment services

A small team of officials will come to Britain to make a study of the Employment Service Agency. This should be followed by our providing preliminary training for Czechoslovak managers in the establishment of systems to advise unemployed people and help them back into work, and systems to pay unemployment benefit.

A further specific area of study which the Czechoslovaks want to undertake in the longer term is the handling of the restructuring of Britain's coal, steel and heavy engineering industries. The problem of major changes in these industries, in particular localities which depend exclusively on these sectors for employment, was a concern expressed by everyone I met. I am sure that much can be learned by the Czechoslovaks from the experience, for example, of British Steel at Corby, and I agreed that this was a further area which should be developed.

In addition I agreed in Prague that my Department should second a senior member of staff (at Grade 5 level) to the Federal Prime Minister's office to provide direct advice to him as the Government introduces its economic reforms. I think this would be a very fitting mark of our wish to provide concrete and immediate assistance to Czechoslovakia under the Know How Fund. The arrangements are now advanced and I hope that the official chosen will be in Prague by September. Czechoslovak officials will also come to Britain in September to study British training and employment programmes.

Throughout my visit to Czechoslovakia I was met with enormous good

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X | will which I am sure you will discover in your visit later in the year. Petr Miller, the Minister of Labour, emphasised at the final press conference of the visit that although there had been a number of visits from other countries in recent months, this was the first firm offer of practical help which they had received. Following the elections last month Petr Miller has retained his place in the Government, and I am confident that the secure links, established with him and his Ministry, will be maintained.

Hungary

My visit to Hungary came at the time when the newly elected Government was settling into office. This may partly explain an apparent lack of urgency and clear vision on the part of the Ministers I met about tackling the decaying and inefficient state industrial sector and moving rapidly into a market economy. The significant burden of foreign debt and a grave lack of domestic capital for investment were presented as significant obstacles to a rapid privatisation programme. Although everyone I met was frank about the mistakes in the past there seemed to be a lack of awareness of the possible extent of the imminent unemployment problem and a lack of commitment to take hard decisions. The uncertainty was equally apparent in the workplace. I visited the Csepel Ironworks, which exemplified many of the problems of overmanning and inefficient production. In talking to the workforce there I found little excitement at democratic change but rather concern about jobs and wage prospects.

The new Labour Minister, Sandor Gyorivanyi, holds one of the two Ministerial posts secured by the Smallholders Party in the coalition. Although it was still unclear how much weight he could command in the Government, he and his Ministry were very receptive to the advice I had to offer.

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The agreement I signed in Budapest contained essentially similar elements to that in Czechoslovakia, focusing on plans for training, distance learning systems and careers guidance; advice on the creation of a counselling service for unemployed people and the opening of pilot Jobclubs; and help in the development of a small firms sector.

In this third area we shall be developing proposals which are likely to include enterprise education pilots in schools, initial support for small business advisory services and the production of practical information and advisory material. During the Royal visit to Hungary in May, the Prince of Wales, in his position as President of Business in the Community (BITC), brought together a Business Leaders Forum to act as a focal point within the Hungarian private sector for enterprise development. We shall be working with BITC to take forward the initiatives developed during the Prince of Wales' visit.

Poland

Of the three countries I have visited, the Polish Government's programme contained the boldest moves to rid the country of central planning and to liberalise markets. The wide scale abandonment of subsidies, the relaxation of most price controls and effective wage cuts have already had significant side effects in the labour market, hitting employment hard. When my officials visited Poland in April unemployment had already risen rapidly in the year to over 250,000, but by the time of my visit the figures had reached 511,000; and conservative estimates were that more than a million would be out of work by the end of the year.

The Government is looking to keep a tight rein on inflation, but this brings with it the risk of conflict with organised labour, the very power that inspired the democratic changes. The Minister charged with the tasks of presenting economic realities to the workforce and with fashioning employment and training measures to

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cope with the changes is the remarkable Jacek Kuron - himself a Solidarity activist who spent much time in prison during Communist rule. I had already met Mr Kuron in Brussels and at the International Labour Organisation in Geneva. He is certainly a man of considerable capacity and determination, but the difficulties he faces are formidable. The differences which have arisen within the Solidarity movement are clearly likely to aggravate them further.

I was however encouraged by my conversations with the workforce at WZT-Elemis, a company manufacturing televisions in Warsaw. Working under the guidance of an executive from the National Freight Corporation in Britain, the firm had anticipated state moves to bring in a Privatisation Bill by taking the first steps to pass up to 25% of the ownership of the firm to its workers. Those I spoke to in the factory, including union members, all looked forward to a period of improved productivity and more responsibility in the privatised concern.

Once again the Polish Ministry had identified with my officials in the earlier mission the specific areas of training, employment services and small firms support as key to their needs for assistance in the labour market. In addition the Poles saw the reform of health and safety law and practice and their factory inspectorate as an important element in their industrial restructuring and were looking at the British examples in this area. I signed an agreement with Mr Kuron that we would provide practical assistance in these areas, once again funded under the Know How Fund.

Action to take forward this agreement will take place quickly. Polish officials will travel to Britain this month to study in more detail our training measures for unemployed young people. Officials from the Employment Service and the Health and Safety Executive will also spend time in Poland in the autumn advising

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the authorities on setting up pilot employment offices and a factory inspectorate service.

In all three countries I found a ready audience for advice based on the British experience. I was struck by the significant parallels drawn between our own labour market problems of the 70s and the challenges Eastern Europe now faces: substantial hidden unemployment; a reliance on inefficient state subsidised heavy industry; and the need to break a culture of dependency on the State. Although other countries, including several within the EC, are offering assistance in similar areas, I think the British success, particularly in the contribution of small firms to the economy, gives our advice special relevance.

In developing the programmes we have had close cooperation with the Joint Assistance Unit at the Foreign Office and I am grateful for their support. I know that William Waldegrave considers the labour market area an important one for Know How Fund support and I am sure that we can continue to work together to deliver on time the promises that we have made under the agreements which I have reached with the three Governments.

I am copying this minute to members of the Cabinet, William Waldegrave, Sir Robin Butler and to HM Ambassadors in Prague, Budapest, and Warsaw.

M. H.

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9th July 1990

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10 DOWNING STREET
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From the Private Secretary

12 July 1990

ASSISTANCE TO EASTERN EUROPE

The Prime Minister was very grateful for your Secretary of State's full report of his series of visits to Eastern Europe, which she read with interest.

DOMINIC MORRIS

Martyn Waring, Esq.,
Department of Employment