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Dear Robin:

... I attach, as requested, a copy of the latest version of the Secretary of State's speech for Monday's debate on the Address. I am sorry that this is partly in manuscript, but the changes which have been made reflect the Secretary of State's initial comments on the first draft.

As I said to you on the telephone, the Secretary of State will be working on the text over the weekend and I suspect that the final version will be significantly different from the present one.

Yours sincerely

David Normington

D J NORMINGTON
Principle Private Secretary

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Where do jobs come from?

1. The Rt Hon Gentleman has said a great deal about the need for more Government action to create jobs and thus reduce unemployment. Rt Hon and Hon Members on both sides of the House expressed a deep concern about unemployment in the recent debate and no doubt they will also have a great deal to say on this important subject today. Everyone agrees that unemployment is far too high. It represents not only a waste of resources, but considerable hardship and real personal distress for many individuals and families.

2. But unemployment cannot be wished away. There is no magic solution to the creation of jobs, and I fear that many suggestions that have been put forward in the past, and may be put forward again today, ignore the hard economic realities of job creation. If we seriously want to encourage the creation of worthwhile permanent jobs, we have to establish how jobs arise. Many of the Government's critics seem to think that job creation is entirely within the Government's power. They say we should increase public expenditure above its current level, of over £130 billion. We should raise taxes or borrow more, to create more jobs, by undertaking indiscriminate public investment programmes, by subsidising uneconomic jobs, unprofitable firms, and declining industries, or simply by pumping more demand into the economy. All this without considering what the consequences may be of such ill-considered action - or recognising what the Government is already doing to tackle the problem of unemployment.

3. Of course there is a case for public investment provided that it shows a satisfactory return, or meets a demonstrable need, so that the extra taxation or borrowing - which is what increased public expenditure means - is warranted. For example, the Government spends some £750 million a year on capital investment in water and

sewerage systems in England and Wales. And, of course, the investment has to be sensible and cost-effective. There is for example, no sense in building a new reservoir if existing water supplies are inadequate because leaking mains and pipes prevent consumer demand being met. But it is facile to increase public investment simply and solely to create jobs irrespective of the underlying demand for the goods and services produced. That is bound to risk wasting a great deal of money which could have been spent on more worthwhile purposes, or left with people to spend on the goods and services they really want.

4. Again on subsidies, the Government does spend a good deal on subsidising some unprofitable enterprises and industries. A number of nationalised industries which are not yet profitable, including shipbuilding, vehicles and railways, are subsidised. And the Coal Board accounts show that the subsidy to that industry, in respect of losses made, is running at £130 per week for every miner employed. But subsidies have got to be related to some longer term prospect of reducing or eliminating losses. We cannot simply pour money into supporting enterprises, or employment, which have no chance of ever paying their way.

5. And this brings me to the main point about job creation. In a free society, ~~jobs don't come from subsidies. They come because people want to buy goods and services, and employers take on workers to produce those goods and services which they can sell. This is the market sector. There is also the non-market sector where most public employees work, and these jobs have to be paid for taxation or Government borrowing. Without a healthy and competitive market sector, jobs in the public sector are at risk.~~

not through subsidies, but

~~6. It all comes down to this. Jobs arise~~ mainly through production for domestic and international markets, ~~and~~ only by operating in these markets with existing and new products or services at competitive costs can we expect increased employment.

Products and services which are not competitive don't sell, markets are lost, and jobs disappear. Ever since [1945] we have had a competitiveness problem. Our cost and prices have tended to rise more sharply than our international competitors. So we have lost export markets and they have gained increasing shares of our home market; Indeed one of our main problems has been that increases in demand have tended to be spent on imports rather than home produced goods.

and if real wages rise too rapidly, people price themselves out of work, and others as well.

6. And of course one vital component of costs and prices is pay. If pay rises faster than output per man, prices have to go up and competitiveness is lost. I want to be very clear about this. It is up to all those involved in wage negotiations to realise it. The future of many unemployed people lies in their hands. By agreeing on high wage increases they are, in effect, keeping the unemployed out of work.

7. The Opposition recognised the truth of all this when they were in Government. They just lacked the vision and determination to do anything about it. The present ^{Opposition} Front Bench are even worse. They can't even get right the arithmetic of their misguided proposals. The Rt Hon Gentleman the Leader of the Opposition wants to spend £6 billion one day and £2.3 billion the next. Yet he patently has no idea of how many unemployed people he expects to get jobs as a result. ~~The Rt Hon Gentleman the Member for Plymouth Devonport suggest a £900 million expansion of the Community Programme without understanding that the true cost of his ideas are nearer £2 billion~~

8. Not, I suppose, that it matters very much if they do get their figures wrong when their policies are so often unrealistic. I suggest that it is because they know that, that they don't take any trouble over their arithmetic. And the main thing of which they are guilty is deluding the public into thinking that there are soft and easy answers to unemployment - that the Government can simply buy jobs.

9. 10. The Government's industrial and economic strategies, on the other hand, are directed at making markets work - at creating the free, flexible, efficient and competitive market environment in which industry, commerce and the labour market can respond quickly and efficiently to changes in technology and demand, and so create the new jobs we all want to see.

~~9. In the labour market this means removing impediments to the creation of employment, and unnecessary and outdated restrictions. We have done much in this area, but there is still more to do.~~ For industry, the Government's policy is to create the framework for growth, through stimulating competition and enterprise. My right honourable Friend the Minister for Industry will say more about this later.

~~11. At the same time, as we enable the product markets to work more efficiently and competitively, so we must improve the operation of the labour market in the pursuit of jobs. Future job prospects depend not only on achieving a better educated and better trained workforce, but also on greater flexibility in working practices and on wages that reflect economic conditions. Success in these areas depends primarily on the efforts of industry itself, but the Government can assist by removing restrictions on and otherwise encouraging enterprise, by reducing burdens on employers which add to labour costs, by aiding the establishment of more realistic wages, and by encouraging labour mobility and more flexible working patterns.~~ We have done much in this area, and will do more.

10. Efficiency in production and flexibility are the keys. But this Government has long recognised that, ~~in the transition,~~ there is a place for Government action to help the unemployed in ways which will also assist these longer term aims, particularly in making the labour market quicker to respond to changing needs. Since 1979 we have systematically developed a range of measures ^{develop training and} to help unemployed people ~~find their way~~ back to work. Nearly $\frac{3}{4}$ million people are now being helped, ~~and~~ nearly $\frac{1}{2}$ million of them ~~are being enabled to come off the unemployment count].~~ |
~~and~~ Expenditure ^{has} on these measures have risen from £332 million in 1979-80 to £2 $\frac{1}{4}$ billion in the current financial year. This is a tremendous programme of achievement, in which the Manpower Services Commission has played a colossal part. I am glad to announce now various improvements in the measures for the coming year.

EMPLOYMENT MEASURES

11. ~~10.~~ ^{I deal first with} ~~Now I move to other~~ ^{which} measures that we have developed to provide a constructive alternative to unemployment in ways which help improve the operation of the labour market and so add to employment opportunities. Here we are also making a number of significant additions and improvements to ensure that greater help is given to those without jobs.

12. ~~11.~~ First, we are expanding the Enterprise Allowance Scheme for the third time. This scheme has amply justified the faith of my predecessors Jim Prior and Norman Tebbit that many unemployed people if given the chance would want to try to work for themselves, and that with suitable help they had the skill and dedication to succeed. As this House already knows, demand for assistance under the Scheme has been substantial, ~~so much so that earlier this year waiting lists increased to such a level that the Scheme looked like becoming a victim of its own success.~~ In July I announced extra resources for the Scheme this year, and those waiting lists, I am glad to say, have now all but disappeared. The features of the Scheme to date that I find particularly heartening are the extent to which the businesses created with help from the Scheme have managed to survive after that help has come to an end and the fact that those businesses are providing jobs not only for the recipients of the allowances but also for others. ^{The Scheme is creating viable businesses which create jobs.} Figures published by my Department during the summer show that 6 months after the Allowance had stopped 7 out of 10 of the businesses supported were still trading, and for every 100 firms established over 50 additional new jobs were created. With these encouraging results we have therefore decided to continue and extend the Scheme next year. We are allocating to the Manpower Services Commission, who administer the Scheme with help from the Small Firms Service of the DTI, an extra £72 million next year ~~over and above the resources originally provided for this Scheme~~ and £125 million and £128 million subject to our normal process of annual review in subsequent years. This will enable the Commission to increase the programme by 25% - that is to provide up to about 1,250 opportunities a week for unemployed people. I have no doubt that these 1,250

Since the national scheme was launched 55,000 people have benefitted.

entrepreneurs a week which the Scheme will now start up will make an increasingly important contribution to the creation of new permanent job opportunities for the people of this country.

13. ~~12~~. The Enterprise Allowance Scheme helps the unemployed people who have sufficient confidence and skills to back their entrepreneurial abilities. I fully recognise and understand that for many a period of unemployment is a chastening and soul-destroying experience which leaves them less able to compete for available employment opportunities. The Community Programme, which offers 130,000 places to the long term unemployed on work of value to the community has already proved a major success ⁱⁿ ~~in helping people back into permanent jobs~~. We are now building upon that success by introducing linked training and work preparation courses and I am sure this development will be of great benefit to those who take advantage of the Programme. The Voluntary Projects Programme also helps prepare unemployed people for work by providing them with constructive voluntary activity. This Programme is also to be extended, and I am providing altogether £12 million for the Scheme to continue next year and subsequently. I shall also be asking the Manpower Services Commission, who administer the Scheme, to seek to develop, on an experimental basis, types of project which have not hitherto been attempted under the Programme - notably more ambitious projects involving a greater commitment of volunteers' time, and projects which can help unemployed people who are ¹considering the possibility of setting up in business on their own account.

14. ~~13~~. I now turn to our measures which help create further employment opportunities in the regular labour market. The Young Workers Scheme has encouraged employers to employ more young people in full time permanent jobs at rates of pay which reflect their age and inexperience. I am continuing it for a further year. We also have to recognise that more flexible patterns of working time in industry are essential if we are to remain competitive and provide employment. I therefore believe it essential to ^{develop and encourage new and different approaches} ~~continue to encourage employers, employees and those who are currently~~

working patterns which may

~~unemployed to consider very seriously whether less than full time work might be~~
of individual enterprises. For my part,
desirable in these particular circumstances, I am therefore going to continue with
two experiments: the part time Job Release Scheme enables those approaching retir-
ing age to work part time while freeing an opportunity for an unemployed person on
the Job Splitting Scheme. However, take-up on both schemes has so far been extremely
poor and I shall therefore be making changes designed to improve their attractiveness
and the help they can give to reducing the problem of unemployment. I shall also
be continuing the full time Job Release Scheme on the present basis for a further
year.

[29. Finally, I have two other announcements to make today, relating to redundancy
and maternity pay provisions. One of the public expenditure savings announced by
my Rt Hon Friend today is the reduction in employers' rebates on redundancy payments.
The rebate, at present 41% of the statutory payment, will be reduced to 35% as from
6 April next year, saving some £37 million a year. The percentage has been 41%
since 1977 and proved extremely helpful in dealing with the enormous scale of redun-
dancies when the older industries were shedding labour in 1980-82. Now redundancies
are running at only half the rate they were in 1982 and it seems right to make
the adjustment now. [There will be no increase in employers' costs: my Rt Hon Friend
the Secretary of State for Social Services is announcing today a change in the lia-
bility of statutory sick pay for National Insurance contributions which will reduce
employers' outgoings by some £35-40 million].

30. I am also announcing today a change in the rate of maternity pay, also from
6 April. When the maternity pay scheme was introduced in 1977 it was intended that
employees with at least two years service with the same employer should be entitled
to six weeks absence on full pay to have their baby. The employee was entitled to
get from the employer 90% of full pay less the amount of the state maternity allow-

TRAINING MEASURES

~~16. The first of these are in training. A skilled adaptable workforce is crucial to flexible competitive industry which can operate in world markets and expand to create new jobs and that is why we have adopted a market approach to training.~~

15. I move now to Training measures.

17. There is a growing body of evidence that more successful economies such as Germany, the United States and Japan invest more in training than we do. In these countries, ~~compared with ours,~~ the Government not only takes a less direct role but employers more readily accept their responsibilities and individuals too expect - and are expected to - play their full part in investing in training.

18. That is not to say that Government does not have its own important role to play in the nation's training effort. It does. We recognise and we are acting on it. In particular we are taking steps to ensure that general and vocational education *and training* are provided in such a way as to improve the transition to work and to reflect the changing needs of employment. ~~and arranging for the foundation training of young people.~~

^{YTS context,}
7. In ~~the case of the basic training for young people,~~ the Youth Training Scheme is proving itself the success we all hoped for. We guaranteed that every unemployed minimum age school leaver who wanted it would be offered a year of proper training and work experience and in the Scheme's first year we secured that objective. Unfortunately a vocal minority, including some members of the party opposite, set out from the start to belittle the Scheme. They said, "there won't be sufficient places to meet the guarantee". We have met it in full with places to spare. They said "young people won't want to join the Scheme". 350,000 youngsters proved them wrong last year. ^{Compared with last year,} ~~So far this year~~ nearly half as many young people again have ^{so far} come forward to take part in the Scheme. They said "it's a dead end". They won't get jobs at the end of it". Early results indicate that that was wrong too. Nearly 60% of those leaving YTS courses appear to be going into jobs and many more to further training or education.

8. YTS is clearly establishing itself with employers as a key way of developing the particular work skills that they need in young recruits. And we are going to continue to improve it. In particular we are going to put a major emphasis on developing and improving the quality of the training provided. It is right to consolidate and build on the great deal that has already been achieved - the need is to maintain stability, flexibility and simplicity. Nevertheless, ^{however} I have decided, at the suggestion of the Manpower Services Commission to extend eligibility to 3 ^{small} groups of 18 year olds who are not, because of their special circumstances, currently able to benefit from the Scheme. ~~young people who left education earlier but were unable to take up a place because of pregnancy or a custodial sentence, or who did not leave education until 18 because their recent immigration meant they had to stay at school to learn English.~~ Of course, Unemployed minimum age school leavers will continue to have the guarantee of the offer of a suitable place on the Scheme by Christmas, and as in previous years we would also expect next year to be able to provide for all unemployed 17 year old leavers who come forward for a place on the Scheme.

19. ~~Of course much of the initial work of preparing youngsters for the adult world falls to the education services. A number of initiatives have been taken to develop links between the education system and the world of employment. I want to concentrate on one of those today, since it is based on a partnership between the Manpower Services Commission for which I have responsibility within Government and local education authorities. The first 14 projects under the Technical and Vocational Education Initiative are already into their second year. Interest in and enthusiasm for the Initiative has grown steadily since it was first announced by my RHF, the Prime Minister, 2 years ago. A second round of 48 projects, including 5 in Scotland, started this autumn, and when the projects are all fully in operation something like 50,000 youngsters in 450 schools and colleges across the country will be taking part in what both my RHF the Secretary of State for Education and Science and I regard as one of the most important developments in this area for many years. I know there was a good deal of disappointment amongst local education authorities whose proposals were not accepted for inclusion in the Initiative this year. I am glad to be able to announce therefore that the Government is making additional resources available to the Manpower Services Commission in order to allow local education authorities not currently participating the further opportunity to put forward projects which would start in autumn 1985 or autumn 1986.~~

It is also vitally important

20. ~~What is as important as training to the vocational preparation of young people is to improve the skills of those already in the workforce. We therefore announced a new Adult Training Strategy earlier this year in the White Paper "Training for Jobs". Public expenditure on training in Britain compares well with public expenditure in other countries, and a recent Financial Times leader concluded "Skill shortages cannot simply be shuffled on to Government. they often reflect shortcomings in the way industry trains and uses its own employees".~~ However, we still have a long way to go to get the underlying realities recognised widely enough in industry. That is why we are launching on 20 November a major campaign to bring home to every

body the ^{significance} ~~vital importance~~ of training as an investment for our future and the central role of employers in making this investment. Attitudes cannot be changed overnight, and we therefore intend this to be a sustained campaign of activity over the next 2-3 years, involving all those concerned with adult training.

21. For its part, the Government is taking action to stimulate change and development in the training system - for example by funding the innovative Open Tech programme - to make it more responsive to the needs of employers and workers. We are restructuring the Government's own adult training programmes so as to double to over 250,000 the number of adults who will benefit from our various training programmes, and tailoring the provision offered to them more specifically to meet labour needs. About half of those helped will be unemployed people, including some 50,000 of the 200,000 long term unemployed people who take jobs on the Community Programme each year.

22. We are also continually seeking to increase the flexibility of the labour market by widening the options available to individuals. ~~As training plays such a key role in equipping people for employment~~ We want to give individuals more chance to invest in their own training, ^{and} I am therefore pleased to say that I have today published a consultative document setting out the Government's proposals for an experimental training loans scheme for adults. The scheme would give people who want to undertake training but for which funding is available neither from their employer nor the State, greater access to local funds for that purpose than is available at present. The experimental scheme would be operated on the Government's behalf by existing financial institutions. In the light of comments from interested parties I very much hope we can get such a scheme running next year.

once (paid directly by DHSS). The 10% was deducted because of what the employee could expect to get in Earnings Related Supplement. ERS was abolished in 1982 and this Government promised to remove the 10% deduction as soon as resources allowed. I am pleased to announce today the fulfilment of that promise. As from 6 April employees will be entitled to full pay less the maternity allowance, and the employee will be able to reclaim this amount from the Maternity Pay Fund].

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25. I have spoken at some length about the improvements we intend to make in our programmes of employment and training measures. We will continue over the next year to review all the measures to ensure that they remain the best possible contribution towards improving employment opportunities and helping the unemployed. And if further genuine improvements, such as these I have just announced, can be made ^{within available resources} then I can assure the House we will not hesitate to make them.

the work of
by RHF the
minister
without
portfolio
will be
important
in this.

32. Of course I recognise that there is a wish in some parts of the House to do even more. But there is a limit to what the Government can do. Others also bear an important responsibility - particularly employers and employees. They too must take their responsibilities seriously if we are to make a real impact on the problem of unemployment.

~~dealing with unemployment~~

33. The real key to ~~that~~ problem is to earn our way in the world and to win back those markets we have lost. Take the car industry for an example. Between 1963 and 1983, UK car production fell from 6 million to just over 1 million. Over the same period car production in Japan rose from 400,000 to 7.2 million. While we declined by 35%, they increased by over 1,600%. That is the scale of the challenge we face. And, of course, one of the main problems to have dogged the car industry in this country is strikes. Some members of that industry seem to be bent on reviving that unhappy tradition. But one thing is clear. Strikes won't help to reduce unemployment. If we can't buy our way back into work, or talk our way into work, we certainly can't strike our way back into work.

Doesn't
work.

34. The Opposition seem to find it hard to accept the truth about the causes and cures of unemployment. But I believe that more and more - the vast majority of working people - both employers and employees, are showing a clear understanding of it. It is with their realism that our future lies.

S/S wished to draft conclusion.

SESSION 1984-85

DEBATE ON THE ADDRESS

State Opening: Tuesday 6th November 1984
 Mover: Sir Paul Bryan
 Seconder: Mr Richard Needham
 Leader of Oppsn: Rt Hon Neil Kinnock
 Prime Minister: Rt Hon Mrs Margaret Thatcher
 followed by other Party Leaders

DATE	SUBJECT	SPEAKERS	
		GOVERNMENT	OPPOSITION
Wednesday 7th November 1984	local part. + Transport	1. J. Jenkin 4. N. Ridley	2. Jack Cunningham 3. G. Dunwoody
Thursday 8 November 1984	Health + Loc. Gov. + Educ.	1. N. Fowler 4. K. Joseph	2. M. Meacher 3. G. Radice
Friday 9 November 1984	F. Aff. + O. Aid	1. G. Howe 4. T. Ransar	2. D. Healey 3. S. Halland
Monday 12 November 1984	Ind. + Employment. ? Oppsn Amdt.	2. P. Channon 4. T. King	1. J. Smith 3. J. Prescott
Tuesday 13 November 1984	Economy ? Oppsn Amdt	2. N. Lawson 4. J. Biffen	1. R. Hattersley 3. P. Shovel