

# PREM19

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## ECONOMIC POLICY

### (NEDC)

### (Part 1)

PART 1.

258.

Confidential Filing

Meetings of the

NEDC

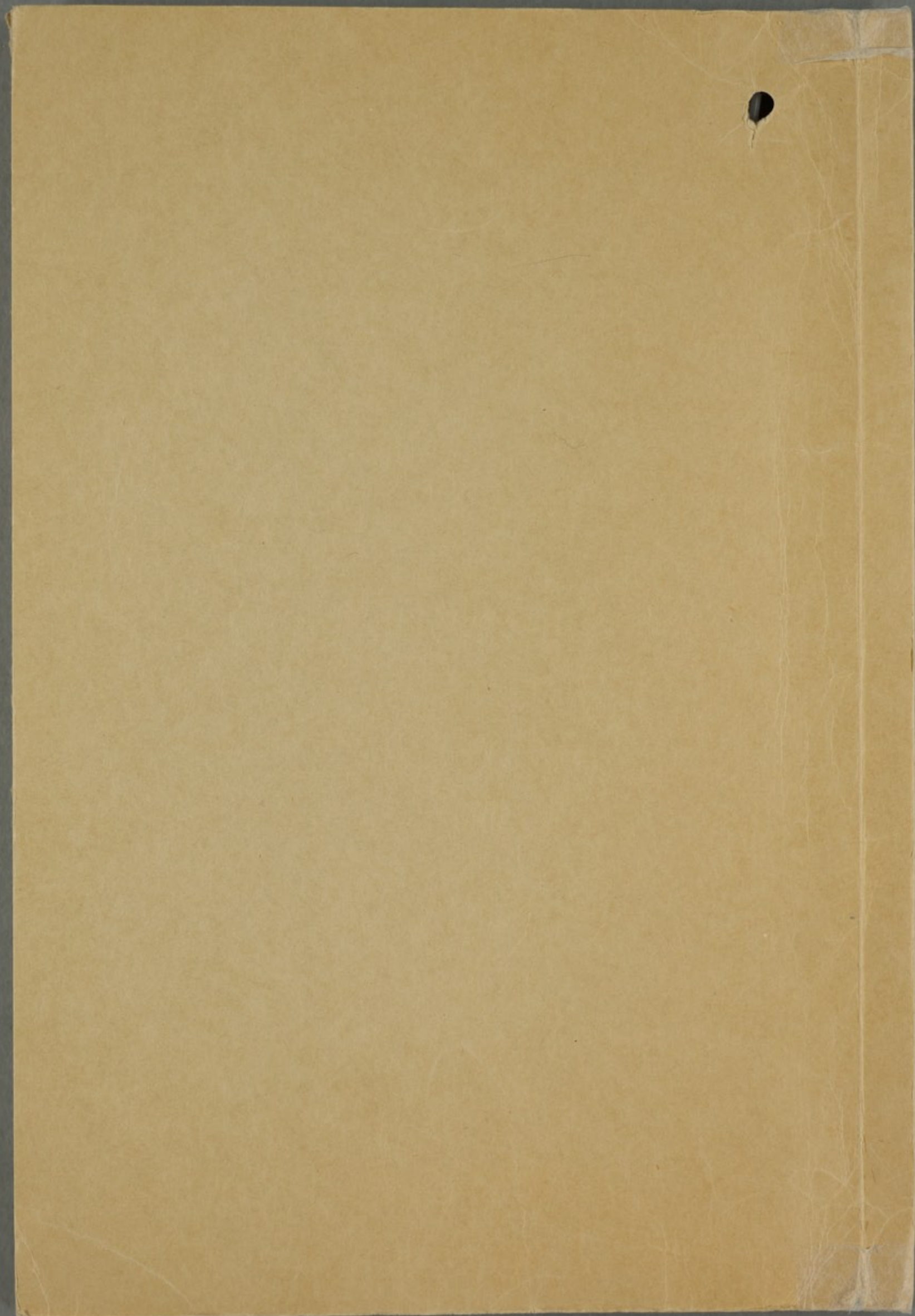
The Question of Ministerial  
MembershipEconomic PolicyMAY 1979

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PART 2 begins:-

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**NATIONAL ECONOMIC DEVELOPMENT COUNCIL  
(NEDC)**

The following NEDC papers/minutes of meetings were enclosed on this file. They have been removed and destroyed. Records from NEDC and the National Economic Development Office are held elsewhere in The National Archives - see series FG1, FG2, etc.

Reference	Date
NEDC (79) 56	29 October 1979
NEDC (79) 9 <sup>th</sup> Meeting, Minutes	7 November 1979
NEDC (79) 63	27 November 1979
NEDC (79) 64	27 November 1979
NEDC (79) 66	28 November 1979
NEDC (79) 10 <sup>th</sup> Meeting, Minutes	5 December 1979

Signed *P. Wayland*

Date 24 October 2009

**PREM Records Team**



Secretary of State for Industry

DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
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18 December 1979

The Rt Hon James Prior MP  
Secretary of State for Employment  
Department of Employment  
Caxton House  
Tothill Street  
London SW1

12  
18/12

*See below*

JANUARY NEDC

Thank you for sending to me a copy of your letter of 5 December to Geoffrey Howe, together with drafts of the papers you are going to table on 'Employment Trends' and 'Microprocessor Technology and Employment Policy'. I welcome the emphasis placed in the letter on the importance of the application of new technology to future employment prospects.

I note that Grey Gowrie is to be concerned with the particular employment implications of new technology. I agree that we should look at how the NEDC Sector Working Parties might be involved: officials here have been looking at SWP interest in microelectronics and will be glad to discuss with your Department and others the scope for promoting this interest further. I look forward to hearing from Grey Gowrie on this question.

I am copying this to the recipients of your letter.

*Cur.*

*Kerr*

19 DEC 1979



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18/12/75

Trans - Products  
Engineering

National Economic Development Council NEDC(80)4



SECTORAL REPORT : PROCESS PLANT INDUSTRY

Memorandum by the Chairman of the Process Plant EDC

The process plant industry

See G. and P. 115

1. The British process plant industry designs, manufactures and supplies complete plants and individual plant items for the chemical, oil, gas, electricity, steel, offshore and associated industries. The British industry is the world's fifth largest after the US, Japan, France and West Germany. A work force of about 100,000 generates an annual output of some £2 billion, of which about one-third is exported.
2. The industry can be divided into two distinct sectors, plant manufacturing and contracting. Plant manufacturers employ about 80,000 and produce a wide range of hardware from nuclear reactors and conventional power station boilers to heat exchangers and storage tanks. The predominant production processes are metal forming and welding. Output is oriented towards the home market. Most firms are British-owned and are fairly widely scattered geographically with concentrations in the Midlands, the North East and Clydeside.
3. Process engineering contractors, employing about 15,000 - 20,000, are responsible for the design and construction of complete plants and sub-systems. Their skills are generally project management, design and process development. Most companies are based in London and the South-East, and about half of the largest firms are US-owned.

The industry's position

4. The manufacturing sector of the industry is under severe threat. The heavy plant sector shed 25% of its labour between 1968 and 1975, and this

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trend is accelerating. The industry is in serious danger of becoming unable to meet home and export demand, and this will have serious repercussions in the late 1980s and the 1990s when a massive resurgence in demand for process plant is expected as coal begins to take the place of oil and gas. Whether this vast programme of high technology process plant will be supplied by British manufacturers or will be imported depends on strategic decisions to be made now and in the near future.

5. The EDC has identified seven principal threats to the industry's survival.

(i) The new industrial states

6. As powerful steel industries are established in newly industrialised countries like Taiwan, Korea, Brazil and Mexico, so associated process plant industries will develop. Cheap and plentiful steel, cheap energy and low wages will make these countries formidable competitors, first in the simpler products but increasingly in the high technology end of the market.

(ii) Indigenisation in developing countries

7. Less powerful industrial newcomers like India, Venezuela or Indonesia, are developing the capacity to produce much of their own process plant. They will not offer the same threat on world markets as the new industrial super-powers, but will certainly be able to supply their home markets increasingly, thus denying traditional outlets to the British industry.

(iii) Competition from high-cost, high-efficiency producers

8. The UK has under 6% of OECD trade in process plant. Germany has 25%, Japan 17%, the US 13%, France 12% and Italy 8%. High-cost industrialised



producers therefore can succeed in this industry, but high efficiency and advanced technology are critical.

(iv) Short-term decline in the home market

9. The home market for process plant is expected to contract rapidly in the next few years, and then to grow again strongly in the late 1980s. This will lead to a matching contraction in capacity, and a severe risk that the following boom in demand will be met by imports from overseas competitors who have been supported by their governments through the lean years.

(v) Efficiency

10. The industry recognises that it must significantly improve its overall resource utilisation if it is to survive. This means ensuring that its resources of management and its productivity match those of its competitors.

(vi) Technology

11. There is evidence that the industry does not spend enough on R & D. In addition, much process plant R & D is carried out by public sector customers and by Government research establishments, remote from the international market place.

(vii) Structure

12. The British industry is more fragmented than most of its competitors. This is reflected in distant and sometimes difficult relationships between industry and the Government; contractors and manufacturers; users and contractors; and the industry and the financial institutions.

#### EDC action

13. EDC work has and will continue to concentrate on resource utilisation, technology, market product relevance and marketing.

##### (i) Resource utilisation

14. In 1977 and 1978, the EDC conducted a major study of resource utilisation in its widest sense, involving detailed studies of production at three works in the UK and two overseas. Areas identified for action included estimating, first-line supervision and production control. These points are being communicated to the industry. Future action in this area will include a programme to improve the quality of production engineering and an examination of demarcation.

##### (ii) Technology

15. The EDC is surveying the forward technology needs of the customers and alerting the industry to them. It is also identifying the scale and direction of the industry's own R & D activities and assessing how firms are helped or hindered by outside bodies such as their customers of Government research establishments. The aim is to move process plant R & D as firmly into the control of the plant manufacturers and thus into the market-place.

##### (iii) Market relevance

16. In addition, in 1978, the principal customer industries analysed in detail the main items of plant they import, and the reasons for so doing. The aim was to draw common lessons which would enable UK suppliers to increase their penetration of home and export markets. Specific recommendations were developed for manufacturers, customers and the Government,



covering such areas as price, delivery, marketing, contract management, material supply, technology, location, design change, standards and specifications. They are being communicated actively.

#### (iv) Marketing

17. In 1978, the EDC produced a series of overseas market briefs covering selected countries to help provide a base point for firms' own more detailed market research. They were distributed widely within the industry.
18. In November, 1978, the EDC sent a mission to India. It identified a very large market for process plant and expressed the fear that much of this market could be lost unless a systematic marketing attack was launched. A follow-up co-ordination group was established and has concentrated on publicising the market, exchanging information and attempting to establish more effective market representation for British firms. The possibility of a federated marketing company is being actively explored. Substantial orders have started to flow, helped to a large extent by the favourable conditions for business laid down by the mission.
19. The EDC has now established a marketing sub-group with a view to improving substantially the industry's marketing performance and ensuring that the various parts of the industry mesh effectively with each other and with Government and outside agencies.

#### Conclusions

The EDC is taking active steps to improve the industry's performance, and management and unions are strongly committed to its three strategies in production efficiency, technology and marketing.



because  
The Government also has a crucial role to play/ of the industry's  
dependence on public purchasing, the importance of the Government in  
helping to win major export contracts, the central support of R & D  
through the research establishments and, not least, through the opportunities  
it can take to stimulate the industry to attain the highest levels of  
performance.

National Economic Development Office  
Millbank Tower  
Millbank  
London SW1P 4QX

18 December 1979



## National Economic Development Council

NEDC(80)6

EMPLOYMENT AND TECHNOLOGYFurther Memorandum by the Trades Union Congress

1 In November the Trades Union Congress presented a memorandum to the Council (NEDC(79)56) summarising the main points of the TUC report "Employment and Technology", which was approved by the 1979 Congress. The memorandum also referred to some of the preliminary views gained by the Economic Committee when they visited the United States of America to study the economic and social consequences of microelectronic technology under the Government's Microelectronic Technology Awareness Programme.

2 At the November meeting the TUC representatives said that they would be bringing a fuller report of the visit of the USA to NEDC. This report is now attached and the delegation who visited the USA - Mr D Basnett (Chairman of the Committee), Mr F Chapple, Mr K Gill, Mr J Gormley, Mr C Jenkins and Mr W Sirs, Mr D E Lea and Mr B Callaghan - presented this report to the TUC General Council on December 19.

3 The Council's attention is drawn in particular to paragraph 34 of the attached report. The Committee's findings from their visit strongly reinforce many of the points set out in the Employment and Technology Report adopted by Congress.

(i) Technological development has to be part of a national context of economic growth, so that the large productivity gains in some sectors are coupled with extra employment.

(ii) The nature of the extra jobs has to be closely studied and urgent programmes developed to meet problems of mismatch at all levels of skill, including systems engineers.



(iii) To be a significant industrial nation the UK has to put a major effort both into chip manufacture and its applications, and in the British context public support is absolutely indispensable to achieve this.

(iv) The concept of New Technology Agreements is vital in ensuring that the benefits of the new technology are maximised and equitably shared and the costs minimised. The scope for agreements should be explored at all levels, including the possibility of a national framework agreement with the Government and the CBI, based on the TUC's 10 point checklist.

4 As far as point (i) is concerned, the overall economic situation was discussed at the last meeting and the TUC hopes that the Council will be returning to this subject in March. On point (ii) the Council has discussed the general training programme on a number of occasions but it now has to give specific and detailed attention to the skills requirement of the microelectronic revolution. The TUC hopes that the Secretary of State for Employment and the Chairman of the Manpower Services Commission will be able to respond to this point. On point (iii) the TUC would wish to underline the need both for UK firms to be more adventurous in applying the new technology and the need for public support to build up the UK's own micro-electronic industries. The TUC looks forward to hearing the comments of the CBI and the Secretary of State for Industry.

5 With regard to point (iv) the TUC wishes to again draw attention to the checklist for trade union negotiators set out in the report "Employment and Technology" and we hope that the Government and the CBI will give their general support to a national framework which would promote action at company and plant level.

December 18 1979

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5 With regard to point (iv) the TUC wishes to again draw attention to the checklist for trade union negotiators set out in the report "Employment and Technology" and we hope that the Government and the CBI will give their general support to the checklist as providing a national framework which would promote action at company and plant level.

- - - - -

December 18 1979

ECONOMIC AND SOCIAL CONSEQUENCES OF MICROELECTRONICS

Visit of TUC Economic Committee to the USA

EVALUATION

Technology and Employment

1 One preliminary observation needs to be made at the outset. Microelectronics is not the live issue that it is in the United Kingdom and some other Western European countries. Many policymakers, particularly in Washington, are worried about the slow rate of technological change in the USA overall and indeed point out that the logical implication about the fears of technology is a step up in the rate of productivity growth, when in fact the exact opposite is being observed. Energy policy is perhaps the dominant topic of conversation and many Americans interpret the debate about technology as being a debate about nuclear power.

2 In America, in the last three or four years there has been a fall in unemployment. Many parts of the USA have been growing fast, including the parts visited by the Committee. Although there are fears about employment in the USA these are based on fears about the coming recession and the energy shortage; they are not based on technological developments.

3 It is difficult to disentangle the contributions made by the microelectronics industry to the California and Arizona economies. It was argued by some experts that population shifts to the "Sun Belt" states were for basically non-economic reasons, eg a pleasant climate, and that firms were expanding in those areas because labour was available. It is clear that the industry is now a major employer. Nevertheless although it is one that is growing fast it is also one which can experience difficulties. In Arizona, at least, the employment growth path has not been a smooth one with major lay-offs being experienced in a recession.

4 Both the California and Arizona areas are ones of fast economic growth and this has helped maintain employment levels. The US economy as a whole is slow growing and there is no doubt that increasing computerisation and the application of microelectronics had led to employment cutbacks elsewhere in the USA. For example, the Pacific Telephone and Telegraph Company in California had managed to increase employment when it was introducing new electronics equipment because of the growth in services. However telephone companies in the North Eastern states had experienced falls in employment. This underlines the Committee's view that economic expansion and technological change must go together.



5 Many US experts thought it was too early to judge what the effects of Proposition 13 would be on the Californian economy. This is the broad conclusion of a TUC study of the Californian tax and public expenditure cuts. The public expenditure cuts were made against a background of rising total employment and a large state revenue surplus. This surplus cannot be expected to continue and the damaging effects of Proposition 13 will become more and more apparent. The effects of Proposition 13 will be compounded by the newly passed Proposition 4 and the growing effects of the recession.

6 Another observation that needs to be made, though it may be thought obvious, is that the USA is a large country within which both capital and labour are mobile. There has been a major shift of both capital and labour into the Southern states, the so-called Sun Belt, and some part of these shifts has a direct bearing on the growth of the microelectronics industry. The growth of the Sun Belt has also corresponded with the relative decline of the North-Eastern states. It has been alleged that many of the unskilled and semi-skilled production workers in the micro-electronic industry are recent immigrants into the USA. Moreover, in California there are many millions of illegal immigrants. Although many work in the relatively low paying agricultural sector, some probably also work in manufacturing.

7 The Committee are not in a position to make a complete analysis of the impact of microelectronics in the USA economy. That daunting task would require considerable research resources and it is doubtful whether the statistics are available for a proper analysis. Indeed it is worth noting that US industrial policy, such as it is, does not take an overall strategic look. The point that needs to be stressed, though, is that it would be quite unrealistic to encourage American style, or rather Californian and Arizonan style, economic and social conditions in Britain in order to build up a successful British microelectronics industry. There are certainly lessons to be learnt from the American experience, but the US experience has to be studied and evaluated and not merely copied.

#### The Growth of the Microelectronics Industry

8 All of the US experts the Committee met confirmed that the growth of the US microelectronics industry originated primarily from the defence and space programmes. One expert described how Shockley, the inventor of the transistor, was given a \$50 million budget to make the best transistor in the world for the Minute Man missile. It is of course possible to conceive of a microelectronics industry developing partly in response to commercial considerations, but it is difficult to see how such considerations would have produced such a rapid growth and the USA's technological lead.



9 It would thus be wrong to describe the growth of the microelectronics industry in the USA as the product of "unbridled capitalism" or "market forces". There is certainly a strong entrepreneurial spirit in the USA, much stronger than in the UK, but the vast contribution of the space and defence programme cannot be ignored. Indeed it is worth noting that the total output of semi-conductors was consumed by the military until 1962. The first computers were constructed for military uses; the drive towards miniaturisation was dictated by military requirements; and processes such as photolithography were products of military research laboratories.

10 It is sometimes fashionable to view the growth of the US electronics industry as an illustration of the value of small firms. The first point to make on this is that Fairchild Camera and Instrument Corporation is the trunk of a family tree of small and medium sized businesses. It is also true that the growth of the microelectronics industry owes more to the activities of enterprising individuals than it does to the activities of the large corporations in the electrical field, although it should be noted that these small firms were working in an atmosphere of high Federal spending.

11 But whatever may have been true of the first 25 years of the industry, the picture is very different today. Microelectronics is big business and the leading firms are now large corporations in their own right. Technological advance means that increasing resources have to be devoted to capital investment. One US expert stated that 70c of investment was needed to generate a further \$1 of revenue. But ten years ago only 30c of investment was needed to generate a further \$1 of revenue.

12 There is no doubt that considerable capital investment is needed to keep up to date in the microelectronics industry. One university laboratory had been given obsolete equipment by major semi-conductor manufacturers; some of the equipment was as little as three years old.

13 After a number of years of neglect major US firms are now beginning to buy into microelectronic firms. In addition major foreign owned firms are moving into the industry. For example, Fairchild has recently been taken over by Schlumberger, a conglomerate. The table shows the content of corporate investment in US semi-conductor companies.



CORPORATE INVESTMENTS IN US SEMICONDUCTOR COMPANIES

<u>Company</u>	<u>Investor or Acquirer</u>
Advanced Micro Devices	Siemens (West Germany)
American Microsystems	(Robert Bosch (West Germany) (Borg Warner (US)
Analog Devices	Standard Oil of Indiana (US)
Electronic Arrays	Nippon Electric (Japan)
Fairchild Camera	Schlumberger (Netherlands Antilles)
Inmos Inc	National Enterprise Board (UK)
Interdesign	Ferranti (UK)
Intersil	Norther Telecom (Canada)
Litronix	Siemens (West Germany)
Micropower Systems	Seiko (Japan)
Monolithic Memories	Northern Telecom (Canada)
MOS Technology	Commodore International (US)
Mostek	United Technologies (US)
Precision Monolithics	Bourns (US)
Semtech	Signal Companies (US)
Signetics	Philips (Netherlands)
Siliconix	(Electronic Engineers of California (US)) (Lucas Industries (UK))
Solid State Scientific	VDO Adolf Schindling (West Germany)
Spectronics	Honeywell (US)
Synertek	Honeywell (US)
Unitrode	Schlumberger (Netherlands Antilles)
Western Digital	Emerson Electric (US)
Zilog	Exxon (US)

Source: Morgan Stanley Electronics  
Letter August 31 1979/Mackintosh Consultants

14 The degree to which the electronics industry will become vertically integrated and dominated by the very large corporations is open to question but the trend is already clear. Just as existing firms need injections of capital from outside, so new entrants cannot hope to compete without substantial capital backing.

15 Many US experts expressed concern about increasing Japanese competition and some referred to the level of public support for R&D in microelectronics. In Japan microprocessors are being produced not by relatively small firms but by large firms such as Hitachi. Some commentators suggest that the Japanese have already caught up with the USA in terms of technology. Japanese attitudes towards productivity and quality control are regarded favourably.

16      Whatever view is taken of the scale of increased Japanese competition, the picture that emerges is of a microelectronics industry dominated by US and Japanese firms. Western Europe will be a major user of semiconductors but its production share will be small. Industry estimates are that the world market for semiconductors will be \$14 billion by 1982. Western Europe will be using some 22 per cent of all semiconductors but producing only 8 per cent of them. The trade deficit will then be 14 per cent of \$14 billion or \$2 billion a year.

17      On trade policy grounds alone there are strong grounds for building up a European industry, and there are good grounds for thinking that the UK could become a major manufacturer. There are already a number of microelectronics plants in the UK and more are to be constructed in the future. But such ventures are unlikely to be financed through conventional means. GEC, which is cash rich, is collaborating in a joint venture with Fairchild, and Inmos is being developed with NEB assistance.

18      It could be argued that it would be unwise for the UK to enter this market because of dangers of overcapacity. The Committee saw no evidence which bears out this view. The semi-conductor market is a strongly growing one and many firms cannot meet demand at present and have long waiting lists for their products. Some are short of capital and skilled labour. There seems no reason why UK resources of capital and labour should not be used to create extra and needed capacity. The Committee are convinced that a high degree of public support is needed to establish a UK microelectronics industry. There is already considerable international competition in Western Europe to attract US firms. Full use must be made of regional aid schemes and the MISP and the Industry Act. And the NEB must be given full scope to finance and develop the Inmos project.



19 It is sometimes argued that the main growth in the production of semi-conductors and assembly of devices will take place in the low cost Far Eastern countries, and that it would be uneconomic for the UK to enter these procedures. This argument ignores the fact that labour costs are increasing in a number of Far Eastern countries and more importantly the advances in production techniques which can make production in high labour cost countries economic. At present a labour intensive part of the production process is wirebonding, whereby the chip is wired into larger assembly. Operations in the Far East can produce about 20 units an hour. The Committee saw a new computer bonding facility which can produce 1,500 units an hour.

#### Applications

20 There is further reason why the UK should build up a microelectronics industry. The growth of semi-conductor manufacturing creates a strong motivation on the part of the manufacturers to be in the vanguard of creating new ideas for application. One expert said that the production techniques were similar in most establishments and what gave individual firms their leading edge was their marketing capability. Much of the growth of the industry was application driven, and one US expert criticised the complacent attitude of European businessmen because they were unwilling to seek out new markets. Although different skills are required for microelectronics manufacture and application, US manufacturers are aggressively marketing their products and so encouraging applications.

21 Some of the applications of microelectronics are well known and all US experts had similar views about the use of silicon chips in capital goods, such as computers, telecommunications and industrial robots. But equally significant are the applications in the consumer field. This will involve the production of new goods. Common examples given are electronic TV games. But the Committee also saw the development of socially useful products, particularly products to help the sick and the disabled. Perhaps more importantly the applications involved improvements in existing products. One expert predicted that the automobile industry would become the third largest user of semiconductors, after the computers and telecommunications sectors. Some uses will be luxury extras, eg on board mini-computers to measure fuel use, but other uses will be to improve ignition and carburation systems. Any consumer good which involves a control system, eg a washing machine, an electric drill, a camera,



can incorporate a microprocessor. The speed and reliability of microprocessors means then that consumer goods incorporating mechanical and electromechanical systems will become uncompetitive. The consumer market will in fact be the largest user of silicon chips.

U 22 The Committee are concerned that British manufacturers of both consumer and capital goods are not aware of the potential of semiconductor applications. The Committee are particularly concerned at the slow speed at which the British car industry is applying microprocessors. Already US, Japanese and European cars are incorporating microprocessors in their latest models. A major effort is needed in this area. The TUC will be asking the four main UK car manufacturers what their plans are to apply microelectronics and will be drawing attention to the US experience.

23 The Committee did not receive a clear picture of what effect the application of microelectronics would have on employment, or what effect it has had already in the USA. It is statistically difficult to measure the impact of technology. It is clear though that the introduction of microelectronics in production processes will have a complex and varied effect on employment. There will be effects on skill and pay levels and these are dealt with in more detail below.

24 The total employment effect will be the result of two opposing factors. One will be a factor for greater working standardisation. The other will be a factor working for greater customisation of products. In fact it is likely that the US economy will be able to offer a range of production processes of varying degrees of capital and labour intensity.

25 It does seem likely though that the proportion of the workforce engaged in manufacturing will decline; this is a long run tendency anyway. But the success of the manufacturing sector will depend on its ability to develop new and improved products and to remain competitive. Computer Aided Design has helped some US industries, such as the shoe industry, regain lost ground by allowing quick product changes to meet market needs.

26 US experts confirmed that the service sector would be greatly affected by microelectronics and pointed to the very low level of capital investment per person in this sector. Again the employment effects were difficult to estimate. On the one hand many routine service tasks would be performed electronically. On the other hand high real incomes in the USA meant that there was also a demand for personalised services.



27 It is the Committee's strong view that British industry must apply microelectronics in production processes if the deindustrialisation of Britain is to be stopped. If Britain is to be competitive in world markets it can do so in two broad ways. The first and preferable way is to develop more capital intensive techniques incorporating processes which have a high value added content. This will need a positive adjustment policy to deal with the employment implications. The second way is to move progressively downmarket; this, though, is a strategy for low value added and low wages. The advent of microelectronics allows this trend to be reversed.

#### Skills

28 However it is not obvious that the full development of microelectronics will proceed apace in the United Kingdom. A number of US experts referred to factors which tend to slow down the process of technological change. One such factor is shortages of skilled manpower. The growth of microelectronics will mean that some skills will not be in heavy demand, eg those based on traditional mechanical engineering, but the new skills will be in increasingly heavy demand. The US debate about skill shortages is clouded by the lack of adequate statistics and by the absence of any forward manpower planning at national level. However, one indicator given to the Committee was that each graduate of the University of Arizona electrical engineering school, with a degree in microelectronics technology, received 4 or 5 job offers. In the US there are already shortages of the top skilled professionals, the process and design engineers, and the amount of university education in this field is significantly above the UK level, even taking account of the different size of the two countries.

29 There are shortages of other skilled people too. The production of the chip - the "hardware"- has proceeded much faster than the development of systems to use its "software". Systems analysis and computer programming will be key professions and the demand for these skills is already very high and will continue to grow.

30 Apart from these professional skills there will be increasing demands for technical skills, for example maintenance engineers and instrument technicians. One firm identified skill shortages in this area as a major constraint.



31 The effect of microelectronics technology on the semi-skilled and unskilled sections of the workforce is difficult to ascertain. As far as the US production of microelectronics is concerned, much of the work is carried out by female labour on rates of pay which are low compared to male earnings, but which are competitive with pay in other predominately female jobs. Indeed the pay has to be attractive in order to recruit workers. However, it is clear that pay in the California and Arizona microelectronics plants, most employing non-union labour, is significantly below pay in microelectronics plants in the NE, which tend to be unionised.

32 In industries applying microelectronics a similar pattern can be discerned. The Committee saw the difference between the relatively high rates of pay and low labour turnover in the computer operations of a unionised firm and the low rates of pay and high rates of labour turnover in a similar operation in a non-unionised firm.

33 The Committee are convinced that a major training and education effort is needed in the UK in order to take the best advantage of microelectronics. The Committee were impressed by the activities of the University of Arizona and UK universities should be giving priority to the training of electronics engineers and computer scientists. (The Committee are pleased to note the developments at Bristol University in this regard). Closer links between the universities and polytechnics and industry are needed. In addition non-scientists should become much more aware of the nature and implications of the new technology. A massive effort is needed, in which the MSC must play a key role, in training and retraining skilled workers.

#### Conclusions

34 The Committee's findings from their visit strongly reinforced many of the points set out in the Employment and Technology report adopted by Congress.

(i) Technological development has to be part of a national context of economic growth, so that the large productivity gains in some sectors are coupled with extra employment.

(ii) The nature of the extra jobs has to be closely studied and urgent programmes developed to meet problems of mismatch at all levels of skill, including systems engineers.

(iii) To be a significant industrial nation the UK has to put a major effort both into chip manufacturer and its applications, and in the British context public support is absolutely indispensable to achieve this.

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BC/E  
December 7 1979



10 DOWNING STREET

*From the Private Secretary*

17 December, 1979.

Thank you for your letter of 17 December setting out the proposed agenda for the NEDC Meeting on 9 January.

The Treasury have already been in touch with us about the agenda, and you can take it that your proposals are acceptable to the Prime Minister.

I am sending a copy of this letter to Martin Hall in the Treasury.

J. P. CANKESTER

T.U. Burgner, Esq.

KRF



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From the Secretary to the Council

233 -  
3200

17 December 1979

Mr T Lankester  
10 Downing Street  
London SW1

Dear Tim,

## NEDC MEETING, 9 JANUARY - AGENDA

As the Prime Minister has agreed to take the Chair at the Council meeting on 9 January, I am writing to seek her approval for the agenda for the meeting.

- (i) The main item has the heading Technological Change, Industrial Adjustment and Employment. There are several papers for discussion under this item. A report by the TUC on Employment and Technology published in September will be tabled together with a covering paper drawing on the lessons learnt from the recent visit by trade union leaders to the USA. There are two papers by the Secretary of State for Employment, one on Employment Trends; the other on Microprocessor Technology and Employment Policy. A paper by the CBI is also expected. Finally, there are two papers by the NEDO reporting on the work that EDCs and SWPs have done in the fields of Manpower and Advanced Technologies respectively.
- (ii) The second item is a sectoral report by Sir Cyril Pitts, the Chairman of the Process Plant EDC. Sectoral reports of this kind have been a regular feature of Council meetings and are a way of exposing to Council the problems and opportunities of individual sectors of British industry. A short paper will be prepared for this item and in addition Sir Cyril Pitts will attend to make an oral presentation.

Cont/...

17 December 1979

Mr T Lankester

- (iii) Finally the Secretary of State for Employment would like to report on the progress made in dealing with the problems of the engineering construction industry.

I should be glad to know if this agenda is acceptable.

I am copying this letter to Martin Hall in the Chancellor of the Exchequer's office.

Yours sincerely,  
T U Burgner

T U Burgner



17 DEC 1979



(S) This is a copy of a letter from the  
Director of the FBI to the Attorney General  
dated 12/11/79. The letter is in the  
file of the Attorney General's Office.  
The letter is in the file of the  
Attorney General's Office.

U.S. DEPT. OF JUSTICE



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Martin Hall Esq  
Private Secretary to the  
Chancellor of the Exchequer  
Treasury  
Great George Street  
LONDON SW1

*cc Sir K. Bennet*

7 December 1979

*Dear Martin*

*12*  
*10/12*

JANUARY NEDC PAPERS

On 5 December my Secretary of State wrote to the Chancellor of the Exchequer enclosing copies of two draft papers which he intends to present at the January NEDC - one on "Employment Trends", the other on "Microprocessor Technology and Employment Policy". Unfortunately, ... the papers sent were not the latest drafts. I enclose the current versions. Although they are substantially the same, some passages - for example on small firms in the "Employment Trends" paper - have been redrafted.

Please accept our apologies for this error.

I am copying this letter and enclosures to Private Secretaries to the Prime Minister, and the Secretaries of State for Industry, Trade, and Energy, to whom I also send our apologies.

*Yours sincerely*  
*John Anderson.*

JOHN ANDERSON  
Private Secretary



DRAFT

## MICROPROCESSOR TECHNOLOGY AND EMPLOYMENT POLICY

### Note by the Secretary of State for Employment

#### INTRODUCTION

1. When the enormous potential of micro-electronic technology became widely known, some two years ago, there was widespread speculation about its effect on the established pattern of employment. Two important documents have appeared recently on the employment effects of new technology, and both, with their level-headed analyses, do much to inform the debate and question the underlying assumptions supporting future projections of high unemployment. One is the TUC's report "Employment and Technology": this is on today's agenda. The other is the report on extensive field work in the last eighteen months by a Manpower Study Group in the Department of Employment, "The Manpower Implications of Micro-electronic Technology", carried out on behalf of my Department and the Manpower Services Commission.(1)

2. The TUC report which the Council have already discussed once is on the agenda today. The Study Group visited the United States and Japan and nearly one hundred companies, trade unions and other organisations in the UK. A summary of its report is attached (Annex A). Its key themes are:-

- there are two major fallacies in the assumptions on which predictions of large scale technological unemployment are based - they assume a static economy; and they assume anything that is technically feasible will rapidly become industrial reality. On the latter point they tend to ignore the fact that, although electronic components are relatively cheap, the cost of associated hardware and software are still considerable and that this will lead to gradual rather than sudden application of the technology;
- in manufacturing industry overall growth in demand for products will be a more significant determinant of employment levels than technological innovation; product changes as a result of new technology will have both positive and negative employment effects;

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(1) In addition the report "Technological Change: Threats and Opportunities for the United Kingdom" by ACARD contains much useful material.

- in the service sector the theoretical possibilities for new electronic technology are not likely to be achieved in practice for some time, but there may be a loss of job opportunities in the less skilled areas;
- while the introduction of new technology requires skills and qualifications in short supply, it is probably an illusion to suppose that massive public training programmes can be a significant influence in making British industry more innovative;
- as firms change to new products and processes their workforce will need to learn new skills and new work methods.

3. I agree broadly with the findings of the report. In particular my view is that technological change will not of itself bring widespread net job losses. I do not expect that the report will find favour with everyone. No-one can be sure of the pace of introduction of new products and processes, or of the extent of the effects on employment. But on one point there is widespread agreement; we must be quick to take advantage of technological change. If we do not, our international competitors will produce better, more modern goods more cheaply than we do, with the result that British industry will find no buyers for its products. The employment consequences of this would be far worse than those resulting from keeping pace with technological change. So, whatever the predictions of how fast new technology will be adopted, employment policy must be geared to facilitate fast and smooth adaptation.

4. The rest of this paper first discusses some of the main employment issues surrounding the introduction of new technology - how to promote rapid application; consultation of the workforce on its introduction; and its benefits. Then employment policies and programmes to facilitate adaptation are discussed.

## ISSUES

### Application of new technology

5. Most people in this country must know by now that micro-processors exist, through repeated exposure in newspapers, radio and television. But many distrust it through lack of knowledge. However, on many occasions the Council have acknowledged the importance of improving competitiveness and the vital role in this of rapid adaptation to new technology. What is needed now is widespread practical awareness and acceptance of micro-processor technology.



6. The employment policies described in this paper (paras 13 to 18) are one of the ways in which the Government is trying to assist the rapid adoption of the new technology. Other policies directed to this end include:-

- industrial policy - we are continuing to promote knowledge of the "chip" through the Micro-electronics Applications Programme and boosting the British micro-electronics industry through the Micro-electronics Industry Support Programme; the NEB will be continuing its involvement in high technology industries for the present, but with maximum private sector participation possible;
- education policy - the education service plays a major role in supporting the MSC's training programmes relevant to micro-electronics and special funds are being made available to universities through the Universities Grants Committee for development within engineering courses of elements on micro-electronics.

7. This is the Government contribution, and we shall continue to seek ways of encouraging people to think towards a modern industrial world in Britain. Success depends on employers examining how new technology can be applied to their business and products; and on workers helping to secure a place in the future for their industry and their jobs.

#### New technology and the workforce

8. New technology (and indeed any radical change in working methods and conditions) should not be introduced without thorough and genuine consultation with the workforce. Access to information should be given to the workers wherever possible; and their response should be carefully considered. These sentiments are easy to express but we all know that there are plenty of employers who bring problems upon themselves by trying to introduce changes without communication with employees or with line managers; and without attempting to incorporate ideas from the workforce. Conversely, many firms had adopted a sensible and progressive approach; and as a result have micro-electronic technology with the full co-operation and assistance of their employees. This good practice should be widespread, and my Department intends to publicise case studies of successful practice.

9. The TUC report "Employment and Technology" devotes considerable attention to these points. The report's insistent that "no new technology which has major effects on the workforce should be introduced unilaterally" is surely right, and its generally positive approach is one that I hope to see widely adopted by unions. It will, I hope, have a practical effect on day-to-day decisions at the workplace.

#### Benefits of new technology

10. Associated with the debate on the new technology is discussion on various means of reducing working hours, such as a shorter working week, longer holidays and early retirement. The aim is twofold: to increase employment by sharing available work among more people and to attain a higher quality of life through increased leisure. The argument runs that the reduction of capital costs and the increase in productivity associated with new technology will release the resources to enable reductions in working hours to be achieved.

11. The Government accepts that workers should share productivity gains resulting from the introduction of new technology as long as the share of increases in real income (including cuts in hours of work) accruing to the workers is not achieved at the expense of the profitability and competitiveness of their industries. But cuts in working hours which put up unit costs would certainly produce nothing but high unemployment; indeed, the task is to reduce unit costs.

12. As part of any agreement on the introduction of new technology between unions and management the former will naturally want to negotiate a share in its benefits for their members. However, it is important that this share is not so high that investors are left with no benefit from the change. Any attempt to do this will inevitably lead to delays and disputes which can only be harmful to employment in the long run. We must beware that our competitors abroad do not steal the cake while we are debating how to cut it up.

#### EMPLOYMENT POLICIES

##### A. Training

13. I have already mentioned the need for people to learn new skills and new work methods as firms adopt micro-electronic technology. Electronics engineers, technicians and software specialists are likely to be in continuing demand;



often maintenance of electronics systems will call for an upgrading or broadening of the skills of traditional maintenance craftsmen. There are plenty of companies in this country where this is happening.

14. The prime responsibility for training must remain with employers, who can best perceive their individual needs as well as take advantage of Manpower Services Commission activities. The MSC's activities are also of prime importance in steering the nation's training system towards meeting the skill needs of micro-processor technology. Without taking over employers' responsibilities it nevertheless acts as a catalyst towards meeting present and future training requirements, as well as contributing at the margin to training for new technology.

15. The Manpower Services Commission, through its Training for Skills Programme has mounted a programme of action to help spread awareness to the new technology and to ensure that analysis of training needs, training provision and content and throughput of trainees are adequate. It has asked all ITBs and appropriate organisations in the non-ITB sector to take full account of micro-electronics in their training strategies and to encourage action as required in their industries to meet future needs. It has made available extensive grant support for courses relevant to new technology, especially in computer-related occupations.

16. For individuals who want to acquire relevant skills MSC is incorporating micro-electronic training in appropriate courses in the Training Opportunities Scheme (TOPS) and is supporting technical level courses in electronics/micro-electronics at colleges of further education. Relevant courses are also provided through the education system, in polytechnics and colleges.

17. A fuller description of MSC activities with an indication of their scale is given in Annex B.

#### B. Policies to help with redundancy

18. It is unlikely that new technology will of itself cause widespread job losses in the country as a whole. However there is no doubt that some jobs in some enterprises will disappear. Fear of this is recognised by many companies as a major obstacle to change. As a result many have developed constructive policies for avoiding or handling redundancies. In addition there is a range of statutory obligations on employers, declaring redundancies to consult with unions, to notify my Department, and to provide financial compensation to those made redundant.

Some of these provisions have been criticised both as too onerous and as too generous. We have modified some of the obligations in relation to smaller redundancies. However the Government recognises that these provisions facilitate adjustment through providing employers and unions with an opportunity to discuss the possibilities of reducing redundancies or mitigating their effects; enabling the DE Group to think ahead about manpower requirements and offer help to employers and employees; and providing financial compensation to those made redundant. This is a statutory underpinning on which companies and unions are free to build through collective bargaining.

19. In addition to the normal help provided by the MSC to help workers find new jobs or retraining, if the unemployed or employees facing redundancy find it difficult to get a job locally they can obtain financial assistance under the Employment Transfer Scheme.

#### CONCLUSION

20. Council members agree, I am sure, that we must be positive in our attitude to new technology. This is what our industrial competitors in Western Europe, the USA and Japan are doing; if we do not, they will take over many of our overseas markets, and increase further their inroads into our home markets.

21. Council members are invited:

- (i) to take note of, and comment on, the report of the Manpower Study Group on the manpower implications of micro-processor technology; and
- (ii) to give their views on how national and company manpower policies can help to smooth introduction of micro-processor technology.



1 Introduction

1. The Manpower Study Group on Micro-electronics was established against background of much publicised predictions of large-scale, technological unemployment as a result of the application of micro-electronics. As well as considering the implications, in overall job terms, of widespread application of this and other computer technologies, the report seeks to identify the major constraints which may lie behind Britain's relatively low rate of adaption to date, and what might be done to remove them.

2 The Study Group chose to adopt a case study approach to these questions; in effect recognising that overall quantification is impossible. That is because any overall impact on jobs will depend more crucially on an unforeseeable economic climate than on technological developments as such. There is now a general consensus that Britain has no option but to adapt to this and other technologies at least as fast as our competitors. However, the report is equally aware that for Britain the remains a very real alternative of failure to exploit new technology and that we are very far from being complacent about the employment and other consequences that such failure would inevitably entail.

II The Economic Background

3 It is widely believed that employment in manufacturing industry is in a state of inexorable decline and that employment has shifted massively to the service sector. Sometimes this decline in manufacturing employment is attributed to a process of de-industrialisation, and sometimes it is attributed to progress towards a post-industrial society. More often these two concepts are simply confused with each other. Although both would imply a reduction in the number of job opportunities available in manufacturing, the former would require massive investment to bring it about whereas the latter would result from a failure to invest.

4 Micro-electronics will be a great deal more pervasive than almost any historical example of technological change. It will affect processes and products in the manufacturing sector and also a wide range of activities in the service sector. Furthermore it may affect the non-labour as well as the labour inputs for the production of given outputs. Technology can either in the shorter or longer term lead to reduced input requirements per unit of output which are not fully compensated by increased outputs. In that event labour or other factors of input will be saved; however new technology cannot be employed on any major scale without

considerable investment in the capital goods associated with the technology and this of itself must lead to new demands for labour. Compensatory effects may also be expected to arise from higher profits which must arise where unit costs are reduced, whether those profits are distributed or reinvested, and from the opportunities provided by new technology for the development of new products.

5 There can never be any guarantee that the compensatory effects of new technology will balance the displacement effects. In the short term in particular it is possible that dramatic improvements in productivity will lead to transitional unemployment. However productivity growth is a cyclical phenomenon and is fastest when output growth is high. Investment in new technology (which may be assumed to be productivity boosting) will tend to rise when investors see a reasonable prospect of market growth. Thus the circumstances in which investment in new technology is likely to be rapid are also the circumstances in which the compensatory effects (in employment terms) are likely to be working most effectively.

6 It is also necessary to bear in mind that what may be technologically feasible is not necessarily economically viable. Thus some of the more spectacular applications of micro-electronic technology may be adopted rather more slowly; and this is one reason why past predictions of severe employment effects from new technology have been wide of the mark. On the other hand too slow a rate of diffusion can result in loss of competitiveness and hence to loss of jobs in the longer term.

7 Clearly there are a number of opposing forces resulting from technological change, and there is no unambiguous answer to the question as to whether or not it always has positive employment effects. Certainly the evidence from the economic history of the entire industrial age is that technological change has been beneficial to aggregate employment. However, even though the total amount of employment may grow, this does not mean that there will not be unemployment amongst specific groups of workers whose skills are no longer required, or social implications arising from such factors as the mix of male/female or part/full-time jobs, or the regional allocation of jobs. These will need to be studied further.

### III Analysis of Employment Effects - Manufacturing Industry

8 Detailed analysis of the possible impact of a new technology upon overall employment opportunities can best be attempted on the basis of looking at actual effects of applications to date, especially where it is possible also to look at the experience of other countries which have moved rather faster than Britain in the application of such technologies, and are thus some years further along the path that we may be expected to follow.



### Product effects

9 Some of the most spectacular employment effects that have so far arisen from the application of micro-electronic technology have been in the area of manufactured products. Particular examples are telecommunications equipment, cash registers and colour television sets; all of which have been affected both by a dramatically reducing component count and by a steadily rising proportion of components that can be automatically inserted.

10 It is, however, quite wrong to extrapolate from such examples in order to suggest that similar effects may result from product changes in other areas. The analysis of employment effects arising from product changes must take account of two factors:-

- (i) the potential of the product to be affected by new electronic technology; and
- (ii) the market effect of innovation.

The above examples of product changes which led to severe job losses are all of products where the scope for labour saving innovation was considerable and the scope for increasing home markets was small. The electronics industry, as well as suffering some major job losses through product changes, also has the best opportunities for developing new products based upon micro-electronic technology. In particular the anticipated changes in office technology offers the electronics industry particularly significant opportunities for increasing job opportunities, as does the growing demand for new ranges of industrial instrumentation and control devices based on micro-electronic systems.

11 Micro-electronics is already making its impact on a variety of mechanical engineering products (both consumer and industrial). In general it is true that when an electronic component replaces an electro-mechanical component the labour requirement for the new component will be less. However when measured against the labour requirement for the product as a whole the reduction is slight. For example, in cars micro-electronics makes possible the development of a variety of entirely new components that would be product additions. Where this occurs there is a positive labour effect. In the domestic appliances field this is less so but there is scope for domestic manufacture of replacement components in place of imports of existing components. Over the next five to ten years market conditions will have a far greater influence on employment in the manufacture of all these products than will new technology. New technology can, however, significantly improve market prospects.

12 In several capital goods markets the incorporation of micro-electronic devices into products is rapidly becoming a condition for survival. In some areas, such as numerically controlled machine tools, the controller is a major product addition and thus could have a positive employment effect. Unfortunately about half of the controllers in use in Britain are imported and the position could get worse. The British machine tool industry stands to regain markets and generate new employment if it succeeds in expanding production of NC machines. Alternatively it could lose further jobs through failure to innovate. Electronic components on other capital goods examined by the Study Group have often amounted to frills with negligible labour effects either way. They are often, however, frills with strong market appeal and can determine whether a company stays in the market at all.

#### Process changes

13 Industrialisation can be seen as a means of achieving greater and greater continuity in the process of production. Different industries have reached different stages with, for example, continuous process industries achieving very considerable continuity using pre-electronic means. At one level the capacity of micro-electronic based systems to reduce jobs is in inverse relationship to the degree to which continuity in the process of production has already been achieved.

#### Computer aided production

14 In a number of batch production industries the Study Group has looked at computer aided production systems. These are usually based upon mainframe rather than micro-systems. Such systems tend to evolve, usually beginning with stores and inventory control and ultimately extending into full production scheduling such that all production paper work is computer produced. There are invariable job gains on the programming side and often job losses on the production control side. No examples have been found of companies that embarked upon such systems with a motive of reducing labour, and the benefits for which they are looking - lower inventory, more reliable delivery etc - are usually considerable. Most of the companies currently using such systems are expanding employment overall, and anticipate that the main effect will be to freeze production control staff while the production that they will control will continue to expand. Batch production accounts for something like two-thirds of all production, and use of such systems is likely to increase considerably over the next five to ten years.

15 In mass production industries there is still considerable scope for using such systems as those discussed in the preceding paragraph in such areas as stores control and indeed in any 'batch' type activities that support production lines. On production lines themselves work scheduling is in effect already achieved, but there is scope for monitoring systems which are likely to make for more efficient



production by helping to avoid breakdown but will have few job implications. In effect they will provide an entirely new facility to production staff.

16 In continuous process industries the major impact of micro-electronics is and will continue to be in the replacement of existing control systems with more sophisticated ones, with negligible manpower implications. The possibilities for growing sophistication will create major opportunities for manufacturers of control systems. Production will be better controlled with lower wastage.

#### Machine/man substitution effects

##### Numerically controlled machine tools

17 In theory such machines can have considerable labour-saving implications since they are both more productive than conventional machines, and also because it is possible for one operator to supervise several of them. Very large productivity gains are theoretically possible. In practice labour saving has not so far been a result of use of these machines since:

- a) their penetration is so far slight;
- b) there are significant skill shortages in the areas they impact; and
- c) their cost is such that many users prefer not to run the risks implicit in under-manning them.

At static production levels they would be bound to reduce jobs in the next 5 - 10 years, but in an area where skills are in short supply. In operational terms they may also have a marked de-skilling effect, but many manufacturers will continue to use skilled men on them in order to minimise the risk of expensive breakdown.

#### Robotics

18 Robotic devices have, not surprisingly, excited great interest since their man-replacing function is so conspicuous. In Britain penetration has been slow, and in West Europe as a whole one estimate suggests that there will not be more than 15,000 such devices in use by 1990. Part of the difficulty is the expense of developing robots capable of performing manipulative operations, as opposed to robots (such as welding or paint spraying devices) which operate on statically held parts or assemblies. Taking the car industry as an example, final trim is and will remain the most labour intensive part of the production line. Robots which are capable of such tasks as seat or carpet fitting, wiring etc are unlikely within a five to ten year timescale. Where they are employed they will undoubtedly reduce jobs, though a 1 for 1, per shift substitution is unlikely given the need for monitoring work and having standby labour in the event of breakdown. Robot production will generate jobs, though there is little sign so far of much of this

work coming to Britain. Robots will also lend to a creation of jobs on the service side. Overall the net impact of robots upon employment will not be significant in the next five to ten years.

#### Convergence

19 As in the service sector some of the most job destroying developments that have been foreseen in manufacturing industry would arise not from any single application of micro-electronic technology but from the convergence of a number of applications. Thus a combination of computer aided manufacturing techniques, robotic devices, NC machine tools and large amounts of new transfer and machine loading devices could in theory result in the entirely unmanned machine shop, or at least in unmanned cell within the machine shop. Such systems are at present mainly theoretical but they are now within the range of the technically feasible, and active encouragement is now being given to the development of such systems. Within the timescale of this report it is not believed that such developments will have achieved sufficient penetration in Britain to have made any significant impact upon employment.

#### IV Analysis of Employment Effects - Service Sector

##### 20 General

There is very considerable scope for the capitalisation of offices and other important areas of employment in the service sector. In particular the following developments will be significant over the next decade.

- a) cheaper computer systems of all kinds;
- b) cheaper and simpler terminals with visual display units and printers;
- c) growing use of word processors, data retrieval systems and 'intelligent' reprographic equipment;
- d) wider use of telecommunications facilities for electronic conveyance of information.

It is also possible that many of these systems are still largely at the theoretical stage, and although it is easy enough to see the kinds of jobs that would be put at risk by such systems (mainly lower grade clerical and sub-clerical jobs) it is far from certain that such systems could be made to work as tidily and economically as the theoretical blueprints tend to suggest. However even if job loss from such systems turns out to be less than some have predicted there will certainly be job change which will generally be in the direction of requirements both for more technical staff and higher grade staff. These trends are already apparent in organisations that have made the heaviest use of existing computer systems.



21 Word processors Of strictly micro-processor based office systems in current use word processors have so far made the greatest impact. Measured over the generality of typing tasks they appear to result in productivity gains in excess of 100 per cent with much greater gains for specialised work such as standard paragraph documents. The theoretical productivity gain does not appear to translate at all easily into actual loss of typing jobs for a number of reasons, including:-

- a) the fact that word processors are often used to overcome shortage of typists;
- b) their tendency to suggest new areas of work (e.g. more standard letters, more preparatory drafts of the same document; and
- c) the low percentage of secretarial time occupied by typing.

Nonetheless their more widespread use could lead to some diminution in job opportunities for typists within the next five years, and will certainly do so within a ten year timescale. Reductions will probably be achieved by natural wastage and it will therefore be new and re-entrants to the labour market who will bear the brunt of the problem.

22 Banking The banks will continue to pick up a lot of new business over the next decade, especially in the form of more small accounts. This will counteract the labour reducing effects of new computer technology to the extent that overall numbers are likely to continue to increase at least for the next five years and are unlikely to do more than stabilise in a ten year period. The major area in which microprocessor-based systems are likely to impact directly upon staffing requirements is that of self-service systems. Developments are possible but not certain in the areas of electronic funds transfer and electronic cheque clearing. Significant progress towards a cashless society will certainly not be made within ten years.

23 Telecommunications The national telecommunications system is crucial to the pace and pattern of change in many of the areas discussed in the foregoing sections. At the heart of the tele-communications network is the switching system. At present 80 per cent of the British system uses Strowger equipment invented some 90 years ago. From 1981 the fully electronic System X will be introduced, but by 1980, it and other semi-electronic systems will still only represent 57 per cent of the system. The rate of changeover to a fully electronic system puts Britain some way behind major competitors. Progress in digitising the transmissions systems will be faster. From 1980-81 all new network systems will be digital. By the mid-1980s main network growth requirements will increasingly be met by optical fibre cables.

24 Some expansion will take place in the 1980s in the range of telephone equipment that the Post Office will license for attachment to the public system. The importance should not be overlooked of the contribution that a more adventurous approach in this area could make to generating new employment in the telecommunications service. In particular, it is anticipated that by the mid-1980s the Prestel service will be available to 60 per cent of telephone subscribers, and that up to 3 million Prestel sets could be in use.

25 In the Post Office the main effect of moving towards an electronic switching system and new transmission systems will be a considerable reduction in manpower requirements for maintenance. However the additional installation requirements and continuing growth in the network are likely to keep engineering employment reasonably stable over the next ten years. Reasonable stability is also expected in the clerical area where savings from computerisation are likely to be offset by growth of the network, development of new services and more aggressive marketing policy.

26 The Postal Service The main pressure upon employment in the postal service resulting from developments in electronics is the possible development of electronic mail. A declining volume of business is in any case anticipated, but within 10 years it is not thought likely that electronic mail will be a particularly significant factor. One estimate puts the staffing effect at 2 per cent at the outside by the end of the 1980s. Automation of mail handling will largely be accomplished using electro-mechanical systems.

## V Employment Issues

27 This section is essentially concerned with the essential prerequisites to successful adaptation and how they may best be achieved. For example, in its visit to Japan the Study Group was concerned to discover how the Japanese manage to be in the forefront in exploiting new technology without exciting fears about unemployment - and indeed with how they have so far managed at least superficially to preserve full employment. The essential elements, in view of the Study Group, are:-

- a) the lifetime employment guarantee given by Japanese companies to their employees;
- b) the willingness of companies to diversify and expand output in order to honour those guarantees;
- c) a company union structure in which craft demarcation is not a significant feature; and
- d) a generally high standard of initial education supplemented by company training, making for a highly flexible and adaptable labour force.



The Study Group has found striking parallels for most of these conditions in several British companies, and has noted a high correlation between the presence of these features and a high rate of innovation in the companies concerned.

#### Industrial relations aspects

28 The job-destroying potential of new technology has quite naturally been a subject of considerable concern to trade unions. The recent TUC report 'Employment and Technology' put forward the suggestion that major innovations should be the subject of technology agreements between managements and unions, which would include the following:-

- a) early and comprehensive consultation with full union access to information;
- b) joint union bodies on the employee side;
- c) new technology should be seen as providing opportunities for increased output and/or diversification;
- d) wherever possible job security should be guaranteed as should individual earnings and status;
- e) appropriate training for job adaptation should be provided.

In general such matters must remain the subject for consultation between managements and unions, and not all the above subsections will be appropriate to all individual circumstances. The TUC document itself accepts that redundancy will be the inevitable consequence of innovation in some cases. Nonetheless there is striking similarity between the approach recommended by the TUC and what is already standard practice in (say) Japan and best practice in Britain. Since the Study Group has come across very few companies that expect new technology to lead to redundancies, the scope for agreements appears to be considerable. On the other hand there is much evidence that a number of firms will wish to be able to deploy skilled labour with much greater flexibility if they are to innovate successfully; and it will therefore be important that unions recognise that this is an important quid pro quo that they will have to offer if managements are to accept the various elements of the TUC approach.

#### Work sharing

29 The TUC document lays stress on the desirability of using various means of work sharing in order to reduce the impact upon jobs of new technology. The view of the Study Group is that long term technological unemployment is by no means an inevitable consequence of the widespread use of new technology. Our conclusion is that most approaches to work sharing, if undertaken unilaterally would be more like

further to erode Britain's competitive position than to create new full-time jobs. Given the fact that new technology is likely to lead to the creation of a more highly specialised work force this is likely a fortiori to apply to any attempt to alleviate technological unemployment by such devices. On the other hand where early retirement is concerned the criterion of reversibility, which makes this an unattractive course in the case of cyclical unemployment, would weigh less heavily if the unemployment arose from technological causes. Whether a general or a selective approach would be most appropriate would depend upon the precise nature and spread of technological unemployment.

### Training for innovation

30 The Study Group found, contrary to some views, that the absence of any electronics expertise on the staff of a company is not an insuperable obstacle to it embarking upon micro-electronic innovation. There are a number of examples of companies which have turned to consultancy services to advise them on the most appropriate applications and on how to set about making those applications. At an early stage the company will often send some of its (non-electronic) engineers on short courses; another early step may well be recruitment of specialist electronics engineering skills. If a company wished to innovate using in-house resources only, the expertise it would require would be applications expertise which by definition arises from experience rather than training, though a micro-electronics content in non-~~electronics~~<sup>electronics</sup> courses undoubtedly makes it easier to acquire that experience.

31 Beyond the stage of initial innovation there seems to be greater commonality of experience between companies of their new personnel requirements. The following is a list, with comments, of the areas of need (and shortage) that have most often been mentioned to the Study Group:

Electronics engineers: a universally perceived shortage;

Electronic test technicians: required for final test of products incorporating microelectronic components; a widely perceived shortage;

Electronic maintenance

technicians: generally felt that this requirement can be met by retraining suitable craftsmen electricians, but structural/demarcation problems are likely to arise;

Software skills: needed in all areas of micro-electronic and computers application. Shortages exist at all levels of software skill;

Hardware/software skills: Particularly relevant to higher level applications and in very short supply;

Control theorists: felt to be a gap in course provision by institutions of



education. Available courses are mainly post-graduate. Control theorists particularly sought by the chemical process industry.

### The role of training

32 The responsibility for training must rest primarily with firms. It should be borne in mind that all of the above categories of shortage are a great deal less precise than they look, and each will mean many different things according to the nature of the company and the application. In general the most innovative companies recognise this and meet most of these training and retraining requirements from in-house resources.

33 In considering the contribution that Government can make towards solving the shortage problems discussed above, two general points must be emphasised. The first is that a considerable task of definition of need has to be carried out if new courses are to meet genuine needs. The second is that there are also widespread shortages of qualified manpower at graduate, technician and craft level in many more traditional skills. Unless the structural problems leading to this situation are overcome it is unlikely that we can solve in relation to a new technology problems that we have failed to solve in relation to older technologies.

### Retraining

34 Foregoing sections of this report make it clear that in the view of the Study Group any reduction in manpower as a result of micro-electronic technology will overwhelmingly be achieved by natural wastage; and this applies equally in manufacturing industry and in the service sector. The jobs that will be 'wasted' will be relatively low in skill content, and this will mean that the brunt (if any) will largely be borne by school leavers or would be re-entrants to the labour market. In this sense the solution to the problem is more in the field of initial education than in that of retraining. The TUC report on employment and technology acknowledged that a massive expansion of public training provision would achieve less than superficially it might appear. Notwithstanding these considerations a strong case can be made, for trying through existing Government training schemes to adopt more ambitious aims in the training of the relatively unskilled.

### Conclusion and Government Policy

35 Micro-electronic technology has given rise to widespread predictions of imminent revolutionary change. A persistent theme emerging from the many study visits carried out in connection with this project has been that change will be evolutionary - but that the process has so far been a dangerously slow one in Britain. Those who have taken the 'revolutionary' view have often urged that immediate changes in Government policy are needed if disaster is to be avoided..

Such arguments are not only based upon a premise that seems to the Study Group to be a false one, they also tend to ignore the existing infrastructure of policy in the field of employment and training which is capable of being adapted to meet evolving circumstances. Within five years we expect to see little quantitative impact upon employment from new technology, though the detailed monitoring of areas identified in this report as "at risk" will be important. By the end of the 1980s it is probable that there will be an identifiable reduction, especially in the service sector, in job opportunities for the relatively unskilled. Micro-electronic technology, in short, will accentuate a problem that we already have, and for which we are already paying a price: too high a proportion of our labour force is unskilled. This points strongly to education as the priority area, with continuing emphasis on the problem of low achievement.



## ANNEX B

### Microelectronics: The Problem of Skill Supply

1 Microelectronics creates 2 main problems for skill supply. First it makes demands for general skills, mainly in engineering and computing, which are already in obvious shortage. Secondly it will call for updating the technical knowledge of those trained in electronics, and for giving some knowledge of electronics and computing to workers trained in other subjects and involved in products and processes which have not previously been electronics based, but now will be.

2 A further problem related to skill supply as well as other aspects is that of ensuring that industry is aware of the potential of microelectronic technology and its implications for manpower.

### Awareness

3 The task of encouraging awareness has been primarily for the Department of Industry, which has reached about 100,000 company directors, engineers, trade unionists and others through the "awareness" section of its Microprocessor Applications Project. DI has also helped create nearly 3,000 extra places in 1978/79 on short courses on microelectronics related subjects for engineers in industry - the number will rise to over 28,000 in 1980/81.

### Training and the Manpower Services Commission

4 The MSC has mounted a complementary programme of action to help spread awareness and ensure that analysis of training need, training provision and content, and throughput of trainees is adequate. It has asked all Industrial Training Boards and appropriate organisations in the non-ITB sector to take full account of microelectronics in their training strategies and plans and to encourage action as required in their industries to meet future needs.

5 Most major ITBs have mounted or plan to mount "awareness" seminars and packages and although these are more focussed on training aspects, ITBs have been encouraged where appropriate to promote discussion of technology linked with consideration of training. Most ITBs are at the stage of analysing the training needs of their industries, but some are already designing training or encouraging throughput courses specifically geared to improving competence in microelectronics.

6 MSC's Direct Training Services are offering and providing training for employers in the advanced electronics field, and MSC is incorporating microelectronics where appropriate into the Training Opportunities Scheme (TOPS). All MSC Skillcentre instructors involved in electrical/electronic courses are receiving training in digital and microelectronics techniques and course content is being regularly updated. TOPS is currently supporting 17 Technician-level courses in electronics/microelectronics at Colleges and plans to support at least 27 by the end of 1980.

7 MSC is also working with the Inter-ITB Group on Administrative, Commercial, and Clerical Training to produce a discussion document on training implications of new office technology, and has helped develop TEC units in microelectronics and is considering with DES and BEC the provision of microprocessor and computer content in BEC courses at school and post-experience level.

8 Under the Training for Skills Programme and TOPS the MSC is giving high priority to increasing the supply of the general engineering skills relevant to the exploitation of micro-electronics. Under Training for Skills substantial MSC support is being given in 1979-80 to engineering training both in the engineering industry and elsewhere.

#### Computer Skills

9 In response to growing concern about the initial and increasing shortage of computer personnel, TSD set up a working party on computer occupations in the Autumn of 1978 whose recommendations were subsequently approved by the MSC and are now being implemented.

10 A 3-year computer occupations programme started in September 1979 under the MSC's Training for Skills initiative, for grant support for three new computer training courses and increased utilisation of existing facilities. The existing National Computing Centre's 'Threshold Scheme' for unemployed young people is to continue with a revised syllabus and provision for increased annual throughput. A new initial programmer course using a similar syllabus is also being introduced for new entrants sponsored by an employer. Together these courses should boost throughput in basic computer programming training to around 1500 places in each of the next 3 years through Industrial Training Boards and other national training organisations.



11 An entirely new pilot course lasting 24 weeks for real time programmers is also being introduced for graduates and experienced computer staff and up to 250 grants will be available to industry through Industrial Training Boards in each of the 3 years. A further 500 grants each year will also be available to employers sponsoring employees for system analysis training through a new 10 week integrated course designed to enable people with some business experience to enter computing.

12 In addition provision will be made for TOPS courses in programming and systems analysis to be increased to around 2500-3000 each year over the 3 year period.

13 Grants for the New Entrant Programmer and Systems Analysts courses may still be available for the current academic year through the appropriate ITBs and other national training organisations.

14 The main purpose of the new programme is to pump prime further effort by industry itself which must retain the main responsibility for meeting its skill needs.

#### Further MSC Action

15 For the future the MSC has decided that a range of training relevant to microelectronics be given high priority in MSC expenditure on TSPA. In addition MSC is considering what further research and monitoring activity on microelectronics training needs it should mount following the report of DE's Manpower Study Group.

-7 DEC 1979





DRAFT

## EMPLOYMENT TRENDS

### Note by the Secretary of State for Employment

1. New technology cannot be considered independently of past and present employment trends. There is a tendency to view new technology as a foreign intrusion upon a generally static structure of industry and employment. The truth is that there has been a great deal of evolution in the last twenty years, much of it itself due to technological change.
2. The main features of employment trends in the last twenty years are set out in the attached note by officials. Key points to emerge are:-
  - Growth in total employment.
  - A slow decline in industrial employment, which nevertheless still accounts for 40% of total employment - more than in most other countries.
  - An increase in employment in service industries, in the number of married women and of part-time workers in the labour force. These three phenomena are connected.
  - Nevertheless, many gains and losses have occurred against the trend within these broad sectors.
  - A decline in unskilled manual employment.
  - Emigration of manufacturing employment from inner city areas.
3. The Appendix also discusses future labour supply, sources of new employment and the role of small firms in the job generation process. The growth in labour supply, the increase in non-manual employment and the decline in unskilled manual occupations are expected to continue. A large proportion of new jobs since 1966 have been generated by public services (mainly health, education, national and local government); however, since 1976 more jobs have been generated in the private than public sector. The number of small firms and their share in economic activity was declining in the UK until the early 70's. Recent

American research suggests that small and new firms have an important part to play in the job generation process. The Appendix concludes that the implications for employment and industrial policy are unclear. My own view is that the evidence out on the whole favours concentrating efforts on stimulating job creation on small firms, which should in any case be encouraged because they are such a source of innovation and initiative.

4. The evidence in the Appendix suggests that the labour market has shown considerable flexibility in the last 20 years in response to changes in industrial structure on the one hand, and size and composition of the labour force on the other. However, the evidence suggests some slowing in the pace of industrial change especially in the period since 1973; and a decline in inter-regional movement of employment. While this may owe something to industrial policies sheltering certain industries and companies from the need to change it may well be also connected with the slower rate of economic growth in the last 5 years, and suggests that the adaptability of the labour market may be related to the level of economic activity. The process of adaptation to industrial change has been, and will be, painful sometimes to some people, but the alternative of postponing change is likely to result in far greater job loss. And, clearly, if the British economy declines seriously, there is little hope of avoiding higher long-term unemployment.

5. In the shorter term some rise in unemployment seems almost inevitable as a result of the current slowing of world trade and other factors. It does not follow that high unemployment will be extended into the longer term through technological change. In the past technological change has brought compensating employment gains in manufacture of new consumer goods and capital equipment. The DE Manpower Study Group's report indicates that the introduction of micro-processor technology could have the same effect. This is not to deny the vital importance of improving the performance, productivity and competitiveness of our manufacturing industry; this is indeed a pre-condition for full employment. These issues have been discussed by Council at previous meetings and are dealt with more fully in NEDC(79) and NEDC(80) .



## EMPLOYMENT TRENDS

Note by Department of Employment

### INTRODUCTION

1. This paper outlines the main trends in employment and labour supply over the last twenty years (Note 1), analyses some aspects of the sources of new jobs, and identifies some issues for future attention.

### PAST TRENDS

#### Labour Supply

2. Between 1961 and 1978 the labour force (Note 2) is estimated to have grown by just over 11% or by 2.7 million men and women. The growth is more than fully accounted for by an increase of 3 million (80%) married women that more than offsets decreases of nearly 100,000 men and 300,000 non-married women.

3. The increased number of married women in the labour force reflects increases in their activity rates. The proportion of married women at work rose from 29.4% in 1961 to 48.9% in 1976 and to an estimated 50.7% in 1978. Among men and non-married women activity rates fell slightly (mainly because a growing proportion of young people go on to full-time further and higher education) and offsetting demographic changes were not sufficient to prevent a fall in their numbers.

#### Employees in Employment

4. The number of employees in employment was 5.9% higher in 1978 than in 1959, and the number of self-employed and employers also rose. However, these increases were less than the growth in the labour force and the number of registered unemployed rose.

5. The rise in overall numbers of employees in employment masks considerable variation between sectors. Non-manufacturing employment rose by just under 2 million between June 1959 and June 1978, while manufacturing employment fell by 0.7 million from 7.9 million in 1959 to 7.2 million in 1978. The biggest increase in employment came in professional and scientific services (primarily

health and education). The slow decline in industrial employment is a trend shared with all the major OECD countries except Japan. However in 1977 industrial employment in the UK still accounted for a larger proportion of total employment than any of the other OECD countries with the exception of West Germany (see Annex A).

6. The growth in the service sector is paralleled by a rapid growth in the number of women in the labour force; nearly three-quarters of female employees work in this sector. It is also reflected in the increase of part-time work, which accounts for some four-fifths of the increase in the female labour force between 1961 and 1976. The growth of part-time work in the service sector has absorbed most of the increased economic activity among married women.

7. Between 1961 and 1978 the share of non-manual jobs in total employment rose from about 38 per cent to 46 per cent. This general trend predates 1961 and is expected to persist; on reasonable assumptions, manual and non-manual jobs might each be expected to account for about half of total employment by the mid-1980s. In the non-manual category there was persistent growth in managerial, professional, technical and clerical employment, and also in personal service occupations. In the manual category craftsmen with engineering and other transferable skills maintained their share of total (manual and non-manual) employment, but there were reductions among craftsmen with skills specific to declining industries. These broad trends are expected to continue in line with requirements of industrial and technical change; some illustrations are given in Annex B.

8. There were 1.67 million employers and self-employed in 1961, rising to a peak of 1.88 million in 1973 and declining to 1.83 million in 1975, the last year for which an estimate is currently available. Most of the change was accounted for by the construction industry. There is little or no evidence either to support or to refute the popular impression of a sharp growth in the numbers of self-employed since the mid-1970s.

9. Boundary changes make regional comparisons difficult but comparable figures exist for the period 1966-1975; during that time the regions of the UK where employment increased were East Anglia (11%), East Midlands (1.3%) and Northern Ireland (5.7%). The regions with the greatest decline were West Midlands and North West (7%). In manufacturing industry there were employment gains only in East Anglia (13%), and the biggest losses were in South East (23.5%) and North West (20%). Female employment increased substantially in all regions, but in manufacturing industry it declined in most regions. Annex C discusses regional and sub-regional trends in employment change.



## The labour force: projections

10. According to the most recent projections the total labour force is expected to increase by 2.3 million between 1976 and 1991. About 35% of the increase is expected to be male, almost half married females. The activity rate of males is projected to remain fairly constant, the increase in the male labour force being entirely due to demographic changes. There is considerable uncertainty about the future numbers of married women in the labour force (many of whom in any case will only be available for part-time employment). The projections assume a further rise in activity rates and a further increase in the number of married women of working age.

11. These projections, like all others, are based on the assumption that current trends continue to evolve in the future as they have in the past. They must, therefore, be used with caution. This is particularly true of the projections for married women for their activity rates may be sensitive to the demand for their labour.

## SOURCES OF NEW EMPLOYMENT

### Sectors

12. The changing contributions to employment growth of manufacturing industry, public services, private services and other industries (primary, construction and utilities) are shown in the table below. In each successive sub-period manufacturing has accounted for a smaller proportion of employment gains and a larger proportion of employment losses. In the two later sub-periods, public services have accounted for the largest share of total employment gains, accounting for over half total gains in the period 1966 to 1973. The non-traded public services accounted for nine-tenths of these gains. Compared with private services, the public services also accounted for a far smaller proportion of total employment losses in the two later sub-periods.

Proportion of Total Employment Gains and Losses Generated by  
Sector (%) (see Note 3)

	<u>1959-66</u>		<u>1966-73</u>		<u>1973-78<sup>++</sup></u>	
	gains	losses	gains	losses	gains	losses
Primary Sector	0.1	41.8	0.1	15.6	0.3	7.0
Manufacturing	31.7	37.9	12.3	42.9	6.9	59.5
Construction	8.9	0	0	12.0	0	12.6

	<u>1959-66</u>		<u>1966-73</u>		<u>1973-78</u> <sup>++</sup>	
	gains	losses	gains	losses	gains	losses
Utilities	2.0	0.8	0	4.0	2.0	1.7
Private Services	30.7	7.2	37.2	19.7	45.0	13.3
Public Services <sup>+</sup>	26.6	12.4	50.4	5.9	45.9	6.0
of which -						
non-traded						
public services <sup>+</sup>	(23.9)	(0)	(46.3)	(0)	(45.2)	(0.4)
TOTAL	100	100	100	100	100	100
	(2,850,000)		(1,063,000)		(1,614,000)	
	(2,217,000)		(970,000)		(948,000)	

<sup>+</sup>Public Services encompass railways, road passenger transport, air transport, postal services and telecommunications, education, health, national government, local government and research and development. The Non-Traded public services encompass education, health, national government, local government and research and development.

<sup>++</sup>The 1978 figures are provisional. Provisional figures for the period June 1976-June 1979 suggest that at least three-quarters of the 300,000 increase in employment occurred in the private sector. It is too early to say whether this represents a change in previous trends.

13. The Department of Employment has recently carried out an analysis which suggests that some 30% of non-manufacturing output is primarily dependent on the level of demand for manufactured goods.

14. While the industrial structure of employment has clearly changed since 1959, it is difficult to evaluate by how much it has changed. A simple measure of the pace of change (described in Annex D) suggests that the pattern of employment changed more rapidly before 1966 than it did afterwards. Much of the difference is accounted for by some particularly wide variations in the growth or decline of employment among half a dozen of the biggest manufacturing industry groups in the period 1959-66.

#### Regional and local job generation

15. From somewhat disparate data it can be tentatively deduced that variations exist in the rate of job generation in different regions. For instance, the



East Midlands appears to have been more successful than Scotland in internally generating additional jobs, and the West Midlands, perhaps surprisingly, appears to be generating few jobs in new establishments.

16. Relative changes in employment between regions are caused to a large extent by migration of firms and establishment of branch plants. Regional policy, actively pursued by successive Governments over the last 20 years, has encouraged this process; as may be expected, the assisted areas have in general gained most from the establishment of branch plants from outside the region. The evidence suggests, however, that inter-regional movement has declined in employment significance.

17. London and the other conurbations have experienced substantial losses of manufacturing jobs; much of this is accounted for by outward migration, for instance from London to East Anglia.

#### Small Firms

18. The number of small firms and their share in economic activity has been declining in most advanced countries, but until the early 70s further and faster in the UK than elsewhere (Note 4).

19. A recent major study by David Birch of MIT on "The Job Generation Process" has attracted a good deal of attention (see Annex E). Among its findings was that small and young firms provided a large proportion of new jobs generated in the United States between 1969 and 1976. No comparable work has been done in Britain, but such studies as have been done point to a similar conclusion. A survey of establishments in manufacturing and some non-manufacturing industries indicates that between June 1975 and June 1978 in small establishments (employing under 25 employees) employment rose by 280,000, but in establishments employing 100 or more employees employment fell by 320,000.

20. The implications of this, and indeed the results of the Birch study, are unclear. Birch found that the qualities associated with job generation included dynamism, mobility and volatility; these were particularly associated with small firms. What is true of American may not be true of Britain; deep-seated cultural factors are involved. Nevertheless, the evidence on the whole favours encouraging more jobs in small firms.

ANNEX A - Change in Distribution of Employment between  
Agriculture Industry and Services 1961-1977

	1961	1966	1971	1977
CANADA				
Agriculture	13.0	9.0	7.5	5.7
Industry	32.7	34.2	31.0	28.9
Services	54.2	56.8	61.6	65.5
USA				
Agriculture	7.9	5.6	4.4	3.7
Industry	32.8	36.0	32.8	30.9
Services	59.3	58.4	62.6	65.3
JAPAN				
Agriculture	29.0	22.2	15.9	11.9
Industry	29.9	32.7	36.1	35.4
Services	41.1	45.1	48.1	52.6
BELGIUM				
Agriculture	8.3	5.9	4.4	3.3
Industry	47.0	46.4	42.7	37.9
Services	44.6	47.6	53.0	58.8
FRANCE				
Agriculture	21.6	17.1	13.1	9.7
Industry	38.1	40.1	39.7	37.6
Services	40.3	42.8	47.2	52.7
GERMANY				
Agriculture	13.1	10.6	8.2	6.8
Industry	49.4	49.0	49.0	45.3
Services	37.4	40.5	42.9	48.0
ITALY				
Agriculture	31.0	25.3	20.3	15.9
Industry	38.2	37.2	39.9	38.6
Services	30.8	37.5	39.8	45.6
NETHERLANDS				
Agriculture	10.9	8.5	6.9	6.3
Industry	40.5	40.4	37.7	33.3
Services	48.5	51.1	55.6	60.5
UK				
Agriculture	4.0	3.7	3.1	2.7
Industry	48.8	46.4	43.9	39.9
Services	47.2	49.9	53.1	57.2

Source - OECD Labour Force Statistics



## OCCUPATIONAL EMPLOYMENT TRENDS

1. Changes in proportions of the labour force employed in various occupations reflect both changes in occupational balance within each industry and changes in the industrial balance of the national economy. These developments have been analysed and used to aid projections of future occupational change as part of a programme of research commissioned from Warwick University by the Manpower Services Commission.
2. The analysis shown below is in terms of Warwick's occupational categories (related to, but not identical with, KOS major groups) and drawn from their forthcoming publication "Economic Change and Employment Policy". Most of the growth in managerial, technical and clerical employment between 1961 and 1978 arose from increasing proportions within each industry - as also was true of non-manual employment as a whole - whereas the growth in professional employment owed more to expansion of the corresponding services, particularly health and education, within the national economy. Among manual occupations, the decline in operative employment was largely a result of falling labour requirements in manufacturing industries, though even within manufacturing there was a relative shift away from operatives towards more highly trained personnel associated with technological change.
3. The projections to 1985 are derived from economic forecasts, through input-output relationships giving expected industrial output, and productivity assumptions giving corresponding industrial employment projections. Occupational employment within each industry is then estimated from inter-Censal trends, as modified by partial data available up to 1978, which are projected forward to 1985.
4. Estimates obtained in this way for absolute numbers employed in each occupational category in 1985 are clearly sensitive to the margin of forecasting error in predictions of national income and output, productivity, employment, and other components of <sup>the</sup> main forecast, and thus liable to variation in the light of changes in Government policy, international trade, and other factors liable to alter the main forecast. Projections of relative occupational shares are less dependent on changes in total employment, and hence appear less sensitive to these forecasting uncertainties, though they may be affected to a limited extent by changing requirements in industries such as engineering and construction that fluctuate with variations in economic growth rates and investment ratios in the national income.
5. The table overleaf indicates a broad continuation of the trends noted at paragraph 7 of the main paper and paragraph 2 above.

OCCUPATIONAL SHARES OF TOTAL EMPLOYMENT

Occupational Category	Percentages				Numbers 1978 Thousands
	1961	1971	1978 Estimated	1985 Projected	
Managers & administrators	6.6	7.8	8.7	9.6	2,146
Education professions	2.3	3.1	3.8	4.0	933
Health professions	2.5	3.2	3.8	4.6	942
Other professions	1.9	1.9	2.2	2.5	536
Literary, artistic & sports	1.2	1.4	1.7	2.2	432
Engineers & scientists	1.7	2.1	2.4	2.6	577
Technicians & draughtsmen	1.8	2.1	2.4	2.7	591
Clerical occupations	14.0	15.0	15.9	16.7	3,919
Sales occupations	5.6	5.4	5.5	5.4	1,360
Supervisors & foremen (a)	0.7	0.5	0.4	0.4	106
Engineering craftsmen	9.0	9.5	9.1	8.7	2,250
Other transferable craftsmen	4.5	3.8	3.4	3.1	828
Non-transferable craftsmen	6.2	4.2	3.5	2.6	833
Skilled operatives	3.2	3.1	2.7	2.3	669
Other operatives	22.9	20.4	18.5	16.3	4,553
Security occupations	1.0	1.3	1.2	1.3	297
Personal service occupations	8.9	10.5	11.2	12.1	2,770
Other occupations	6.1	4.8	3.8	2.9	921
Non-manual	37.5	41.9	46.3	50.3	11,435
Manual	62.5	58.1	53.7	49.7	13,228
Whole economy (b)	1.000	1.000	1.000	1.000	24,663

(a) In engineering and transport only

(b) Excluding H M Forces



## JOB GENERATION : REGIONAL AND SUB-REGIONAL EVIDENCE

1. Over recent years there has been a marked variation in the rate of change of employment in the UK regions. Table 1 shows employment change for each region for 1966-75. Total employment fell in most regions, but increased in East Anglia (10.7%), East Midlands (1.3%) and Northern Ireland (5.7%), and fell most in the North-West (7.0%) and West Midlands (6.8%). There were similarly marked variations in employment change in manufacturing industry, with the South East (-23.5%), the North West (-20.1%), Yorkshire and Humberside (-17.3%) and the West Midlands (-17.2%) suffering the greatest decline; East Anglia (+12.6%), Wales (no change), the South West (-0.5%) and the North (-1.5%) had the most favourable experience. In manufacturing the decline in female employment in general exceeded the decline in male employment; in all regions, however, total female employment rose and in all regional female employment increase was greater than the change in male employment, which declined in most regions.

## INTER-REGIONAL EVIDENCE ON JOB GENERATION

2. Regional variation of manufacturing employment change can be looked at in more detail by examining data collected in the Department of Industry's Record of Openings and Closures (ROC). The ROC seeks to identify openings of new manufacturing units in the UK and to classify these openings as transfers from elsewhere.

3. The regions with the highest proportion of manufacturing employment in new openings over the period 1966-75 are Wales (17.5%), East Anglia (15.8%), North (13.6%), Northern Ireland (13.3%) and Scotland (12.5%). With the exception of East Anglia, these are regions who have been the major recipients of government regional policy expenditure. East Anglia has benefitted from its proximity to the South East and movement out of London.

4. A similar ranking of regions exists when only new openings with origins outside the region are analysed. Again with the exception of East Anglia, and for the same reason, it is the assisted areas of the country who have gained most from inter-regional movement. Wales, the North and Northern Ireland have fared particularly favourably. The West Midlands stands out as gaining very little of its 1975 employment from inward movement (0.1%).

5. The evidence on movement suggests that both the number of moves and the associated employment have declined in the 1970s compared to the late 1960s. Employment in inter-regional moves in the period 1966-70 exceeded 100,000, while in the period 1971-5 only some 60,000 jobs were associated with inter-regional movement.

6. Variations in closure rates are also important components of regional employment change. Yorkshire and Humberside (26.5%), the South East (26.3%) and Scotland (26.1%) have lost most employment from closures; this obviously helps explain why overall manufacturing employment in Scotland fell significantly despite a relatively favourable employment effect of establishment openings. Wales (7.7%) and East Anglia (10.3%) have lost least employment from closures.

7. In interpreting this data it is important not to confuse new openings in a region with net employment change. It would be particularly inappropriate to assume that an additional opening in one region necessarily represents an increase in total UK or regional employment. A new opening in one locality may merely displace employment opportunities at another locality, possibly within the same region. This displacement may take the obvious form of closure elsewhere or the less obvious form of a reduction in employment at a number of competing establishments.

#### SUB-REGIONAL EVIDENCE

8. One of the major features of manufacturing employment in the 1960s was the extent of the decline in manufacturing employment in urban areas. This has continued in the 1970s with the major conurbations showing in general the greatest decline in manufacturing employment.

TABLE 2.2 % CHANGE IN MANUFACTURING EMPLOYMENT, 1971-6

Conurbations	- 13.4%
More urbanised counties	- 6.7%
Less urbanised counties	- 3.1%
Rural counties	+ 1.6%

Source: D Keeble "Manufacturing Dispersion and Government Policy in a Declining Industrial System".

9. Table 2 shows a consistent gradation between rate of decline of manufacturing employment and degree of urbanisation. A number of establishment data bases at a variety of academic institutions throw some light on this process of conurbation (and inner city) decline. In general the relative decline in manufacturing employment



in conurbations appears to owe more to higher contraction and closure rates than to outward migration. Estimates suggest, eg that over the period 1966-74 Greater London lost 280,000 jobs through closure and 105,000 through outward movement (36,000 of these to assisted areas). Evidence from other conurbations suggests that decline in numbers employed in establishments which continue in existence has also been significant.

10. Whereas most conurbations are similar in having suffered a relatively high rate of overall decline in manufacturing employment, there is evidence that the processes at work vary between conurbations. Thus, eg evidence suggests that birth rates of new independent manufacturing companies are higher in Central Clydeside than in the West Midlands conurbation; this is, of course, consistent with the Scottish and West Midlands regional data discussed above.

11. Recent academic work on geographical variations in the formation rate of new manufacturing firms has suggested that rates of new firm formation will be relatively high in areas with a relatively large proportion of its workforce employed in small plants. Such a hypothesis seems to "explain" sub-regional variations in new firm formation in the East Midlands and is consistent with studies undertaken in the Northern region. This is consistent with US evidence that small plants or enterprises are more likely backgrounds for new entrepreneurs than large plants.

TABLE 1: REGIONAL EMPLOYMENT STATISTICS, 1966 AND 1975

Region		All Industry & Services			Manufacturing Industry		
		1966 ('000s)	1975 ('000s)	Change as a % of 1975 Employment	1966 ('000s)	1975 ('000s)	Change as a % of 1975 Employment
South- East	Male	4,686	4,291	- 9.2	1,631	1,342	-21.5
	Female	2,836	3,028	+ 6.3	732	571	-28.2
	Total	7,522	7,319	- 2.8	2,363	1,913	-23.5
East- Anglia	Male	391	406	+ 3.7	119	138	+13.8
	Female	207	265	+21.9	54	59	+ 8.5
	Total	599	671	+10.7	173	198	+12.6
South- West	Male	951	906	- 5.0	314	312	- 0.6
	Female	514	616	+16.6	114	115	+ 0.9
	Total	1,465	1,523	- 3.8	429	427	- 0.5
W Midlands	Male	1,530	1,350	-13.3	841	738	-14.0
	Female	833	862	+ 3.4	356	284	-25.3
	Total	2,363	2,212	- 6.8	1,197	1,021	-17.2
E Midlands	Male	954	896	- 6.5	407	388	- 4.9
	Female	512	589	+13.1	223	205	- 8.9
	Total	1,465	1,485	+ 1.3	631	593	- 6.4
Yorkshire & Humberside	Male	1,353	1,205	-12.3	584	512	-14.1
	Female	732	780	+ 6.2	276	220	-25.5
	Total	2,086	1,985	- 5.1	860	733	-17.3
North- West	Male	1,780	1,572	-13.2	826	727	-13.6
	Female	1,083	1,103	+ 1.8	425	315	-34.9
	Total	2,862	2,675	- 7.0	1,251	1,042	-20.1
North	Male	862	774	-11.4	343	334	- 2.7
	Female	414	491	+15.7	118	120	+ 1.7
	Total	1,277	1,266	- 0.9	461	454	- 1.5
Wales	Male	701	618	-13.4	238	234	- 1.7
	Female	327	380	+13.9	79	83	+ 4.8
	Total	1,028	998	- 3.0	317	317	0
Scotland	Male	1,342	1,219	-10.1	499	438	-13.9
	Female	777	858	+ 9.4	226	199	-13.6
	Total	2,120	2,076	- 2.1	726	637	-14.0
Northern Ireland	Male	292	293	+ 0.3	101	99	- 2.0
	Female	174	201	+13.4	74	55	-34.5
	Total	466	494	+ 5.7	175	154	-13.6

Source: Department of Employment Gazette, August 1976.

Note: Figures are rounded to nearest thousand and may not sum to total.



#### ANNEX D THE PACE OF CHANGE IN THE STRUCTURE OF EMPLOYMENT

- A1 It is clear that the industrial structure of employment has changed substantially since 1959; but it is difficult to design a straightforward measure that will measure either the pace of change or its extent. A number of more or less sophisticated measures are available and, for this exercise, a relatively simple indicator has been chosen. The measure consists of the sum of the divergences (irrespective of whether they are positive or negative) between the actual change in employment in an industry and the change that would have occurred if that industry had enjoyed a share of the increase or decrease in total employment equal to its share of total employment at the beginning of the period under examination. In other words the indicator measures the difference between what would have happened if each industry's share of employment had remained constant and what actually happened to each industry's share of total employment.
- A2 This measure does not give an unambiguous measure of the rate of change because the amount of change observed in any period depends upon the level of aggregation. Thus the sum of divergences by MLH will generally be greater than the sum of divergences by SIC because there are more MLHs than SICs. However, provided the level of aggregation is the same throughout the period, the measure will show whether or not the rate of change in the pattern of employment is speeding up, slowing down or remaining constant.
- A3 The first two lines of table A1 show that between 1959 and 1975 the divergence between the actual pattern of employment in 1978 and the pattern that would have obtained had all industries grown or declined at the same rate since 1959 was equivalent to an annual average movement between industries of 409 thousand jobs; equivalent to almost 2% of employment in 1959.

Table A1: Rate of change in pattern of employment by SIC and by sector 1959-1978

	1959-66	1966-73	1973-78	1959-78
1) Sum of gains and losses by industry (pa)	506,000	380,000	312,000	409,000
2) % of employment at beginning of period of which	2.4%	1.7%	1.4%	1.9%
3) Sum of gains and losses by sector (pa)	213,000	326,000	275,000	271,000
4) % of employment at beginning of period	1.0%	1.4%	1.2%	1.3%
5) sector gains and losses as % of gains and losses by industry	42.1%	85.8%	88.1%	66.3%

A4 It is clear from the first two lines of the table that the rate of change was higher in the years between 1959 and 1966 than it was in either of the two subsequent sub-periods, and it is of some interest to determine whether this slowing down is a result of a reduced reallocation of jobs within or between sectors. The last three lines of table A1 suggest that the reallocation of labour between sectors was slightly faster in the two later sub-periods than it had been in the first. It follows, therefore, that the reasons for a slower pace of change after 1966 must be sought in a slower reallocation of jobs within the sectors.

A5 Change between sectors. The Service sector - which was growing throughout this period - accounts for between 40% and 50% of the inter-sectoral divergences between actual and 'trend' employment change. But the share accounted for by the Primary sector - which was shrinking throughout the period - steadily diminished; while that of Manufacturing - which grew in the first sub-period but shrank thereafter - increased. Taken overall the rate of reallocation between these three sectors has been accelerating slightly from around 1.0% of total employment in 1959 between 1959 and 1966; to 1.4% of employment in 1966 between 1966 and 1973; and 1.2% of employment in 1973 between 1973 and 1978.

#### A6 Changes within sectors

Within each of the sectors the contributions of individual sector SICs to the changing pattern of employment vary widely from period to period with little in the way of a consistent pattern. Much of difference between the first and



subsequent periods observed in the first two lines of table A1 reflects a slower pace of change within manufacturing after 1966. In turn this seems to be attributable to an exceptionally large number of big divergences between the growth of employment in manufacturing as a whole between 1959 and 1966 and the experience of some manufacturing SICs. While many of these big industries reappear as major contributors to change in the periods after 1966 they do so at different times and changes <sup>in</sup> employment are therefore more uniform across the manufacturing SICs.

EMPLOYMENT IN SMALL FIRMS : AMERICAN STUDY

1. A recently published research report by David Birch of the Massachusetts Institute of Technology <sup>says that</sup> "small firms (those with 20 or fewer employees) generated 66% of all new jobs generated in the United States between 1969 and 1976". Firms with 21 to 50 employees generated 11%, those with 51 to 100 employees 4%, those with 101 to 500 employees 5% and those with over 500 employees 13%. "Young firms (those less than five years old) play a crucial role, generating about 90% of all replacement jobs". The report, "The Job Generation Process", was not primarily about small firms. It found, however, that dynamism, mobility and an entrepreneurial spirit were qualities associated with job generation and often present in small firms.
2. Some limited information on a similar basis is available for Great Britain. A survey of establishments in manufacturing and some non-manufacturing industries shows that, between June 1975 and June 1978, employment in small establishments (those with 25 or less employees) in these industries rose by 280,000 whilst those in larger establishments (with 100 or more employees) fell by 320,000. Another study, which traced employment in manufacturing establishments in Cleveland from 1965 to 1976, showed overall net employment losses for establishments of all sizes except for established firms of less than 50 employees, who experienced a net gain.
3. The implications for policy purposes of these figures are far from clear. Birch's analysis showed that there is no guarantee that a firms which has grown will remain at its new size; for example, "a big gain in the past tends also to lead to a higher than average expectation of a big loss. Volatility cuts both ways; what has gone up has a higher than average tendency to go down in the next period".
4. Both Birch's work and the figures for Great Britain are consistent with the phenomenon typical of many statistical distributions which are relatively stable over time, but are characterised by a continuous process of those at the bottom moving up, those at the top moving down and those in the middle moving out in both directions. Changes in employment size of firm may be an example of this phenomenon. If so, there are very substantial problems in identifying those firms which will expand and maintain their new size.
5. Possible conclusions to be drawn are:-
  - (i) by any interpretation, small firms play an important part in the job generation process;



- (ii) young and small firms do, however, have a high rate of failure or contraction; therefore the cost-effectiveness of small firms policy needs to be considered.



10 DOWNING STREET

Jimi Prior wrote to Chancellor  
of Exchequer on 5.12.79  
about NEDC meeting in  
January attaching 2 papers.  
Apparently the drafts  
are wrong & replacements  
are coming.

Please note file 7/12.



cc Sir Kenneth  
Berill  
-asked to comment  
to D. emp direct



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Rt Hon Sir Geoffrey Howe QC MP  
Chancellor of the Exchequer  
Treasury  
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LONDON SW1P 3AG

5 December 1979

*John G. [unclear]*

#### JANUARY NEDC

I am expected to table papers on Employment Trends on Microprocessors and Employment Policy for this meeting which the Prime Minister is to chair. I attach drafts of each of them. I will need to revise them in the light of today's Council discussion but as they must be with NEDO well before the holiday I would welcome any observations you may have on the drafts by 12 December. We are seeking informal reactions from TUC and CBI officials.

My officials are arranging for Council members to receive copies of the published version of the report of our study group on "The Manpower Implications of Micro-electronic Technology" before the January meeting.

You may also like to know that I have asked Grey Gowrie to involve himself in the area of new technology - in particular to identify those areas of potential application of micro-electronics where there could be major employment consequences or where employment factors are holding back important developments. He will be writing to his opposite numbers about this shortly indicating how he might proceed and how NEDC Sector Working Parties might be involved and I see this as a useful complement and follow up to the NEDC discussion in January. If you or the others have any other thoughts on how we might follow up the discussion I would welcome them along with comments on the drafts.

I am copying this to the Prime Minister, Keith Joseph, John Nott and David Howell.

*[Handwritten signature]*

MICROPROCESSOR TECHNOLOGY AND EMPLOYMENT POLICY

Note by the Secretary of State for Employment

INTRODUCTION

1. When the enormous potential of micro-electronic technology became widely known, some two years ago, there was widespread speculation about its effect on the established pattern of employment. Two important documents have appeared recently on the employment effects of new technology, and both, with their level-headed analyses, do much to inform the debate and question the underlying assumptions supporting future projections of high unemployment. One is the TUC's report "Employment and Technology". The other is the report on extensive field work in the last eighteen months by a Manpower Study Group in the Department of Employment, "The manpower implications of micro-electronic technology", carried out on behalf of my Department and the Manpower Services Commission.

2. The TUC report which the Council have already discussed once is on the agenda today. The Study Group visited the United States and Japan and nearly one hundred companies, trade unions and other organisations in the UK. A summary of its report is attached (Annex A). Its key themes are:-

- there are two major fallacies in the assumptions on which predictions of large scale technological unemployment are based - they assume a static economy; and they assume anything that is technically feasible will rapidly become industrial reality. On the latter point they tend to ignore the fact that, although electronic components are relatively cheap, the cost of associated hardware and software are still considerable and that this will lead to gradual rather than sudden application of the technology;
- in manufacturing industry overall growth in demand for products will be a more significant determinant of employment levels than technological innovation; product changes as a result of new technology will have both positive and negative employment effects;
- in the service sector the theoretical possibilities for automation are not likely to be achieved in practice for some time, but there may be a loss of job opportunities in the less skilled areas;



- while the introduction of new technology requires skills and qualifications in short supply, it is probably an illusion to suppose that massive public training programmes can be a significant influence in making British industry more innovative;
- as firms change to new products and processes their workforce will need to learn new skills and new work methods.

3. I agree broadly with the findings of the report. In particular my view is that technological change will not of itself bring widespread net job losses. I do not expect that the report will find favour with everyone. No-one can be sure of the pace of introduction of new products and processes, or of the extent of the effects on employment. But on one point there is widespread agreement; we must be quick to take advantage of technological change. If we do not, our international competitors will produce better, more modern goods more cheaply than we do, with the result that British industry will find no buyers for its products. The employment consequences of this would be far worse than those resulting from keeping pace with technological change. So, whatever the predictions of how fast new technology will be adopted, employment policy must be geared to facilitate fast and smooth adaptation.

4. The rest of this paper first discusses some of the main employment issues surrounding the introduction of new technology - how to promote rapid application; consultation of the workforce on its introduction; and its benefits. Then employment policies and programmes to facilitate adaptation are discussed.

## ISSUES

### Application of new technology

5. Most people in this country must know about microprocessor technology by now, through repeated exposure in newspapers, radio and television. But many distrust it. We must learn to regard it, like fire, as a bad master but a good servant. What is needed now is widespread practical awareness and acceptance of the new technology.

6. The employment policies described in this paper (paras 13 to 18) are one of the ways in which the Government is trying to assist the rapid adoption of

the new technology. Other policies directed to this end include:-

- industrial policy - we are continuing to promote knowledge of the "chip" through the Microelectronics Applications Programme and boosting the British microelectronics industry through the Microelectronics Industry Support Programme; the NEB will be continuing its involvement in high technology industries for the present, but with maximum private sector participation possible;
- education policy - the education service plays a major role in supporting the MSC's training programmes relevant to microelectronics and special funds are being made available to universities through the Universities Grants Committee for development within engineering courses of elements on microelectronics.

7. This is the Government contribution, and we shall continue to seek ways of encouraging people to think towards a modern industrial world in Britain. Success depends on employers examining how new technology can be applied to their business and products; and on workers helping to secure a place in the future for their industry and their jobs.

#### New technology and the workforce

8. New technology (and indeed any radical change in working methods and conditions) should not be introduced without thorough and genuine consultation with the workforce. Access to information should be given to the workers wherever possible; and their response should be carefully considered. These sentiments are easy to express but we all know that there are plenty of employers who bring problems upon themselves by trying to introduce changes without adequate communication with employees or with line managers; and without attempting to incorporate ideas from the workforce. Conversely, many firms have adopted a sensible and progressive approach; and as a result have introduced microelectronic technology with the full co-operation and assistance of their employees. This good practice should be widespread, and my Department intends to publicise case studies of successful practice.

9. The TUC report "Employment and Technology" devotes considerable attention to these points. The report's insistence that "no new technology which has major effects on the workforce should be introduced unilaterally" is surely right, and its generally positive and practical approach is one that I hope to see widely adopted by unions.



### Benefits of new technology

10. Associated with the debate on the new technology is discussion on various means of reducing working hours, such as a shorter working week, longer holidays and early retirement. The aim is twofold: to increase employment by sharing available work among more people and to attain a higher quality of life through increased leisure. The argument runs that the reduction of capital costs and the increase in productivity associated with new technology will release the resources to enable reductions in working hours to be achieved.

11. The Government accepts that workers should share productivity gains resulting from the introduction of new technology as long as the share of increases in real income (including cuts in hours of work) accruing to the workers is not achieved at the expense of the profitability and competitiveness of their industries. But cuts in working hours which put up unit labour costs would certainly produce nothing but high unemployment

12. As part of any agreement on the introduction of new technology between unions and management the former will naturally want to negotiate a share in its benefits for their members. However, it is important that this share is not so high that investors are left with no benefit from the change. Any attempt to do this will inevitably lead to delays and disputes which can only be harmful to employment in the long run. We must beware that our competitors abroad do not steal the cake while we are debating how to cut it up.

### EMPLOYMENT POLICIES

#### A. Training

13. I have already mentioned the need for people to learn new skills and new work methods as firms adopt microelectronic technology. Electronics engineers, technicians and software specialists are likely to be in continuing demand; often maintenance of electronics systems will call for an upgrading or broadening of the skills of traditional maintenance craftsmen. There are plenty of companies in this country where this is happening.

14. The Manpower Services Commission, through its Training for Skills Programme has mounted a programme of action to help spread awareness to the new technology and to ensure that analysis of training needs, training provision and content and throughput of trainees are adequate. It has asked all ITBs and

appropriate organisations in the non-ITB sector to take full account of microelectronics in their training strategies and to encourage action as required in their industries to meet future needs. It has made available extensive grant support for courses relevant to new technology, especially in computer-related occupations.

15. For individuals who want to acquire relevant skills MSC is incorporating microelectronic training in appropriate courses in the Training Opportunities Scheme, and is supporting technical level courses in electronics/microelectronics at colleges of further education. Relevant courses are also provided through the education system, in polytechnics and colleges.

16. A fuller description of MSC activities with an indication of their scale is given in Annex B. They make an effective contribution at the margin of training for new technology and also act as a catalyst towards meeting present and future training requirements. However the prime responsibility for training must remain with companies, who can best perceive their individual needs as well as take advantage of MSC activities.

#### B. Policies to help with redundancy

17. It is unlikely that new technology will of itself cause widespread job losses in the country as a whole. However, there is no doubt that some jobs in some enterprises will disappear. Fear of this is recognised by many companies as a major obstacle to change. As a result many have developed constructive policies for avoiding or handling redundancies. In addition there is a range of statutory obligations on employers declaring redundancies to consult with unions, to notify my Department, and to provide financial compensation to those made redundant. Some of these provisions have been criticised both as too onerous and as too generous. We have modified some of the obligations in relation to smaller redundancies. However the Government recognises that these provisions facilitate adjustment through providing employers and unions with an opportunity to discuss the possibilities of reducing redundancies or mitigating their effects; enabling the DE Group to think ahead about manpower requirements and offer help to employers and employees; and providing financial compensation to those made redundant. This is a statutory underpinning on which companies and unions are free to build through collective bargaining.



18. In addition to the normal help provided by the employment services, if the unemployed or employees facing redundancy find it difficult to get a job locally they can obtain financial assistance under the Employment Transfer Scheme.

#### CONCLUSION

19. Council members agree, I am sure, that we must be positive in our attitude to new technology. This is what our industrial competitors in Western Europe, the USA and Japan are doing; if we do not, they will take over many of our overseas markets, and increase further their inroads into our home markets.

20. Council members are invited:

- (i) to take note of, and comment on, the report of the Manpower Study Group on the manpower implications of microprocessor technology; and
- (ii) to give their views on how national and company manpower policies can help the smooth introduction of microprocessor technology.

## I Introduction

1. The Manpower Study Group on Micro-electronics was established against a background of much publicised predictions of large-scale, ineradicable, technological unemployment as a result of the application of micro-electronics. As well as considering the implications, in overall job terms, of widespread application of this and other computer technologies, the report seeks to identify the major constraints which may lie behind Britain's relatively low rate of adoption to date, and what might be done to remove them.

2. The Study Group chose to adopt a case study approach to these questions; in effect recognising that overall quantification is impossible, and that the best that can be attempted is a description of major actual or potential technological developments and their likely associated employment trends. In part that is because any overall impact on jobs will depend more crucially on an unforeseeable economic climate than on technological developments as such. However, a case study approach is itself hedged about with many difficulties, not least of which is that where little is happening it may be particularly easy to gain a false impression that little is likely to happen. Since there is now a general consensus that Britain has no option but to adapt to this and other technologies at least as fast as our competitors, we have worked on the assumption that the rate of adoption achieved by some of the fastest moving British companies would be sufficient to keep Britain competitive were it to be more generally emulated; and we have then tried to extrapolate as far as we can from the manpower experience or expectations of those same companies. However, we are equally aware that for Britain there remains a very real alternative of failure to exploit new technology and that we are very far from being complacent about the employment and other consequences that such failure would inevitably entail.

## II The Economic Background

3. It is widely believed that employment in manufacturing industry is in a state of inexorable decline, that employment has shifted massively to the service sector and that these phenomena reflect a natural evolution in the economy. Sometimes this decline in manufacturing employment is attributed to a process of de-industrialisation, and sometimes, especially in the context of discussion about the manpower implications of micro-electronic technology, it is attributed to progress towards a post-industrial society. More often these two concepts are simply confused with each other.



Although both would imply a reduction in the number of job opportunities available in manufacturing, the former would require massive investment to bring it about whereas the latter would result from a failure to invest.

4. The more extreme predictions of future unemployment have been based on models in which manufacturing employment is in continuing decline and the service sector loses the capacity it has hitherto exhibited to absorb labour pushed out of the manufacturing sector. In fact such models are questionable in themselves. Secondary employment was relatively stable as a proportion of total employment in Britain from the middle of the nineteenth century until the early 1960s. The tertiary or service sector has always been an important provider of employment although the proportion of total employment that it represents has tended to rise over time. It is more in accordance with the facts to say that until 1960 the important employment shift was from the primary sector to both the secondary and the tertiary sectors. The presumption of an ordered reallocation of employment through time is thus probably wrong; the growth of services is instead related in a complex way to the growth of manufacturing with both sectors producing wealth and incomes to sustain a mutual expansion. The idea of a service sector which has hitherto been able to 'take up the slack' in employment terms from the manufacturing sector is thus probably misleading.

5. Micro-electronics will be a great deal more pervasive than almost any historical example of technological change. It will affect processes and products in the manufacturing sector and also a wide range of activities in the service sector. Furthermore it may affect the non-labour as well as the labour inputs for the production of given outputs. Technology can either in the shorter or longer term lead to reduced input requirements per unit of output which are not fully compensated by increased outputs. In that event labour or other factors of input will be saved; however new technology cannot be employed on any major scale without considerable investment in the capital goods associated with the technology and this of itself must lead to new demands for labour. Compensatory effects may also be expected to arise from higher profits which must arise where unit costs are reduced, whether those profits are distributed or reinvested, and from the opportunities provided by new technology for the development of new products.

6. There can never be any guarantee that the compensatory effects of new technology will balance the displacement effects. In the short term in particular it is possible that dramatic improvements in productivity will lead to

However productivity growth is a cyclical phenomenon and is fastest when output growth is high. Investment in new technology (which may be assumed to be productivity boosting) will tend to rise when investors see a reasonable prospect of market growth. Thus the circumstances in which investment in new technology is likely to be rapid are also the circumstances in which the compensatory effects (in employment terms) are likely to be working most effectively.

7. It is also necessary to bear in mind that what may be technologically feasible is not necessarily economically viable. Thus some of the more spectacular applications of micro-electronic technology may be adopted rather more slowly; and this is one reason why past predictions of severe employment effects from new technology have been wide of the mark. On the other hand too slow a rate of diffusion can result in loss of competitiveness and hence to loss of jobs in the longer term.

8. Clearly there are a number of opposing forces resulting from technological change, and there is no unambiguous answer to the question as to whether or not it always has positive employment effects. Economists have tended to be sanguine about the impact of new technology upon employment especially when considering the longer term; and certainly the evidence from the economic history of the entire industrial age is that technological change has been beneficial to ~~aggregate~~ employment. However, even though the total amount of employment may grow, this does not mean that there will not be unemployment amongst specific groups of workers whose skills are no longer required, or social implications arising from such factors as the mix of male/female or part/full-time jobs, or the regional allocation of jobs. These will need to be studied further.

### III Analysis of Employment Effects - Manufacturing Industry

9. Detailed analysis of the possible impact of a new technology upon overall employment opportunities can best be attempted on the basis of looking at actual effects of applications to date, especially where it is possible also to look at the experience of other countries which have moved rather faster than Britain in the application of such technologies, and are thus some years further along the path that we may be expected to follow. The relatively slow diffusion of micro-electronic technology in Britain to date makes it difficult to predict longer term



effects with accuracy since the base from which extrapolation has to be attempted is a rather narrow one. This section looks in turn at:

- a) employment effects of product changes;
- b) employment effects of process changes;

#### Product effects

10 Some of the most spectacular employment effects that have so far arisen from the application of microelectronic technology have been in the area of manufactured products. Particular examples are telecommunications equipment, cash registers and colour television sets; all of which have been affected both by a dramatically reducing component count and by a steadily rising proportion of components that can be automatically inserted. These are all examples of areas where products which were previously electro-mechanical or purely mechanical have now become purely electronic. Moving parts, in short, have been eliminated.

11 It is, however, quite wrong to extrapolate from such examples in order to suggest that similar effects may result from product changes in other areas. The analysis of employment effects arising from product changes must take account of two factors:-

- (i) the potential of the product to be affected by new electronic technology; and
- (ii) the market effect of innovation.

The above examples of product changes which led to severe job losses are all of products where the scope for labour saving innovation was considerable and the scope for increasing home markets was small. The electronics industry, as well as suffering some major job losses through product changes, also has the best opportunities for developing new products based upon microelectronic technology. In particular the anticipated changes in office technology offers the electronics industry particularly significant opportunities for increasing job opportunities, as does the growing demand for new ranges of industrial instrumentation and control devices based on microelectronic systems. The development of a viable semi-conductor manufacturing industry in Britain would have a positive though modest employment effect. Its real importance, however, would lie in the spin-off effects it could have in terms of indigenous

applications to new products which could generate many more jobs.

12 Microelectronics is already making its impact on a variety of mechanical engineering products. Examples looked at by the Study Group include cars, cookers, washing machines and (on the capital goods side) machine tools and plant for the food processing industry. A variety of labour effects can arise from applications to consumer products. In general it is true that when an electronic component replaces an electro-mechanical component the labour requirement for the new component will be less. However when measured against the labour requirement for the product as a whole the reduction is slight. Where cars are concerned microelectronics makes possible the development of a variety of entirely new components that would be product additions. Where this occurs there is a positive labour effect. In the domestic appliances field there is less scope for product additions. However there is also scope for domestic manufacture of replacement components in place of import of existing components. Over the next five to ten years market conditions will have a far greater influence on employment in the manufacture of all these products than will new technology. New technology can, however significantly improve market prospects.

13 In several capital goods markets the incorporation of micro-electronic devices into products is rapidly becoming a condition for survival. In some areas, such as numerically controlled machine tools, the controller is a major product addition and thus could have a positive employment effect. Unfortunately about half of the controllers in use in Britain are imported and the position could get worse. The British machine tool industry stands to regain markets and generate new employment if it succeeds in expanding production of NC machine. Alternatively it could lose further jobs through failure to innovate. Electronic components on other capital goods examined by the Study Group have often amounted to frills with negligible labour effects either way. They are often, however, frills with strong market appeal and can determine whether a company stays in the market at all.

#### Process changes

14 Industrialisation can be seen as a means of achieving greater and greater continuity in the process of production. Different industries have reached different stages and a rough spectrum can be constructed running from custom-build and small batch production



industries at one end to mass production and continuous process industries at the other. At the latter end very considerable continuity has already been achieved using pre-electronic means. At one level the capacity of microelectronic based systems to reduce jobs is in inverse relationship to the degree to which continuity in the process of production has already been achieved. The other significant process effect is where machines can be substituted for men within existing continuities. The Study Group has separately considered these two effects.

#### Computer aided production

15 In a number of batch production industries the Study Group has looked at computer aided production systems. These are usually based upon mainframe rather than micro-systems. Such systems tend to evolve, usually beginning with stores and inventory control and ultimately extending into full production scheduling such that all production paper work is computer produced. There are invariable job gains on the programming side and often job losses on the production control side. No examples have been found of companies that embarked upon such systems with a motive of reducing labour, and the benefits for which they are looking - lower inventory, more reliable delivery etc - are usually considerable. Most of the companies currently using such systems are expanding employment overall, and anticipate that the main effect will be to freeze production control staff while the production that they will control will continue to expand. Batch production accounts for something like two-thirds of all production, and use of such systems is likely to increase considerably over the next five to ten years. Where such systems are used without any intention to expand production jobs in the production control area will be lost.

16 In mass production industries there is still considerable scope for using such systems as those discussed in the preceding paragraph in such areas as stores control, and indeed in any 'batch' type activities that support production lines. On production lines themselves work scheduling is in effect already achieved, but there is scope for monitoring systems which are likely to make for more efficient production by helping to avoid breakdown but will have few job implications. In effect they will provide an entirely new facility to production staff.

17 In continuous process industries the major impact of micro-electronics is and will continue to be in the replacement of existing control systems with more sophisticated ones, with negligible manpower implications. The possibilities for growing sophistication will create major opportunities for manufacturers of control systems. Production will be better controlled with lower wastage.

#### Machine/man substitution effects

##### Numerically controlled machine tools

18 In theory such machines can have considerable labour-saving implications since they are both more productive (because they are more versatile) than conventional machines, and also because it is possible for one operator to supervise several of them. Very large productivity gains are theoretically possible. In practice labour saving has not so far been a result of use of these machines since:

- a) their penetration is so far slight;
- b) there are significant skill shortages in the areas they impact; and
- c) their cost is such that many users prefer not to run the risks implicit in under-manning them.

At static production levels they would be bound to reduce jobs in the next 5-10 years, but in an area where skills are in short supply. In operational terms they may also have a marked de-skilling effect, but many manufacturers will continue to use skilled men on them in order to minimise the risk of expensive breakdown.

#### Robotics

19 Robotic devices have, not surprisingly, excited great interest since their man-replacing function is so conspicuous. In Britain penetration has been slow, and in West Europe as a whole one estimate suggests that there will not be more than 15,000 such devices in use by 1990. Part of the difficulty is the expense of developing robots capable of performing manipulative operations, as opposed to robots (such as welding or paint spraying devices) which operate on statically held parts or assemblies. Taking the car industry as an example, final trim is and will remain the most labour intensive part of the production line. Robots which are



capable of such tasks as seat or carpet fitting, wiring etc are unlikely within a five to ten year timescale. Where they are employed they will undoubtedly reduce jobs, though a 1 for 1 per shift substitution is unlikely given the need for monitoring work and having standby labour in the event of breakdown. Robot production will generate jobs, though there is little sign so far of much of this work coming to Britain. Robots will also lend to a creation of jobs on the servicing side. Overall the net impact of robots upon employment will not be significant in the next five to ten years.

#### Automated warehousing

20 Again penetration in Britain has been slight. One estimate puts the number of computer controlled warehouses in Britain at about 80 (as compared with about 1600 in Japan). Although the loss of jobs from such systems is as inevitable as it is obvious - a Japanese company estimated that perhaps 20-25 people would be needed to run manually a warehouse that now employs 4 people - it tends to be the case that warehousing is an area that companies only look at if their existing systems are imposing significant constraints (ie if the company is expanding). Automated warehouses have to be purpose-built and costs are considerable. Furthermore, the wider the range of stores the greater the difficulties. No reliable forecast can be made of the likely spread of such systems in the next five to ten years. Automated warehousing is, sadly, an area from which the British materials handling industry has been retreating rather than one into which it is advancing. If the market for such systems expands the job-generation potential is considerable. On the other hand failure to advance in this area will put jobs at risk in the existing materials handling industry.

#### Convergence

21 As in the service sector some of the most job destroying developments that have been foreseen in manufacturing industry would arise not from any single application of microelectronic technology but from the convergence of a number of applications. Thus a combination of computer aided manufacturing techniques robotic devices, NC machine tools and large amounts of new transfer and machine loading devices could in theory result in the entirely unmanned machine shop, or at least in unmanned cells within the

machine shop. Such systems are at present as theoretical as is the electronic office (see following section on the service sector), but as is also the case with the electronic office they are now within the range of the technically feasible, and active encouragement is now being given to the development of such systems. Within the timescale of this report it is not believed that such developments will have achieved sufficient penetration in Britain to have made any significant impact upon employment.

#### IV Analysis of Employment Effects - Service Sector

##### 22 General

There is very considerable scope for the capitalisation of offices and other important areas of employment in the service sector. In particular the following developments will be significant over the next decade.

- a) cheaper computer systems of all kinds;
- b) cheaper and simpler terminals with visual display units and printers;
- c) growing use of word processors, data retrieval systems and 'intelligent' reprographic equipment;
- d) wider use of telecommunications facilities for electronic conveyance of information.

It is also possible that many of these systems will converge in order to make possible what is often referred to as the 'electronic' or 'paperless' office. Such comprehensive systems are still largely at the theoretical stage, and although it is easy enough to see the kinds of jobs that would be put at risk by such systems (mainly lower grade clerical and sub-clerical jobs) it is far from certain that such systems could be made to work as tidily and economically as the theoretical blueprints tend to suggest. However even if job loss from such systems turns out to be less than some have predicted there will certainly be job change which will generally be in the direction of requirements both for more technical staff and higher grade staff. These trends are already apparent in organisations that have made the heaviest use of existing computer systems.



23 Word processors. Of strictly micro-processor based office systems in current use word processors have so far made the greatest impact. There are currently about 15,000 in use in Britain. Measured over the generality of typing tasks they appear to result in productivity gains in excess of 100 per cent with much greater gains for specialised work such as standard paragraph documents. The theoretical productivity gain does not appear to translate at all easily into actual loss of typing jobs for a number of reasons, including:-

- a) the fact that word processors are often used to overcome shortage of typists;
- b) their tendency to suggest new areas of work (eg more standard letters; more preparatory drafts of the same document); and
- c) the low percentage of secretarial time occupied by typing.

Nonetheless their more widespread use could lead to some diminution in job opportunities for typists within the next five years, and will certainly do so within a ten year timescale. Reductions will probably be achieved by natural wastage and it will therefore be new and re-entrants to the labour market who will bear the brunt of the problem.

24 Banking. The banks will continue to pick up a lot of new business over the next decade, especially in the form of more small accounts. This will counteract the labour reducing effects of new computer technology to the extent that overall numbers are likely to continue to increase at least for the next five years and are unlikely to do more than stabilise in a ten year period. The major area in which micro-processor-based systems are likely to impact directly upon staffing requirements is that of self-service systems. Developments are possible but not certain in the areas of electronic funds transfer and electronic cheque clearing. Significant progress towards a cashless society will certainly not be made within ten years.

25 Insurance. This industry is already a heavy user of computers and will make increasing use of all the systems mentioned earlier. Numbers in the industry have been relatively stable over the last

20 years, despite increasing computer use; but continued business growth will certainly be required if this stability is to continue. Even if overall employment is maintained a shift from lower grade clerical and data preparation jobs towards higher grade computer systems and data processing jobs is likely. The jobs at risk are mainly female. Redundancies are unlikely, but some natural wastage will probably occur in the 'at risk' areas.

26 Telecommunications. The national telecommunications system is crucial to the pace and pattern of change in many of the areas discussed in the foregoing sections. At the heart of the telecommunications network is the switching system. At present 80 per cent of the British system uses Strowger equipment invented some 90 years ago. Six per cent is the more advanced crossbar system and the remainder is semi-electronic (TXE) systems. From 1981 the fully electronic System X will be introduced. By 1989 the proportions are expected to be Strowger: 25 per cent; crossbar: 18 per cent; TXE systems: 42 per cent; and System X: 15 per cent. The rate of changeover to a fully electronic system puts Britain some way behind major competitors.

27 Progress in digitising the transmissions systems, which is particularly important from the point of view of providing the infrastructure for electronic communication, will be faster. From 1980-81 all new network systems will be digital, and pulse code modulation will provide a means of analogue to digital conversion and vice versa. By the mid-1980s main network growth requirements will increasingly be met by optical fibre cables.

28 Some expansion will take place in the 1980s in the range of telephone equipment that the Post Office will license for attachment to the public system. The importance should not be overlooked of the contribution that a more adventurous approach in this area could make to generating new employment in the telecommunications service. In particular, it is anticipated that by the mid-1980s the Prestel service will be available to 60 per cent of telephone subscribers, and that up to 3 million Prestel sets could be in use.



29 In the Post Office the main effect of moving towards an electronic switching system and new transmission systems will be a considerable reduction in manpower requirements for maintenance. However the additional installation requirements and continuing growth in the network are likely to keep engineering employment reasonably stable over the next ten years. Major reductions in telephone operators have already taken place, and, with the virtual completion of the automation programme, numbers will rise slightly from the present level of a little over 30,000 as the network grows. Reasonable stability is also expected in the clerical area where savings from computerisation are likely to be offset by growth of the network, development of new services and more aggressive marketing policy.

30 The Postal Service. The main pressure upon employment in the postal service resulting from developments in electronics is the possible development of electronic mail. A declining volume of business is in any case anticipated, but within 10 years it is not thought likely that electronic mail will be a particularly significant factor. One estimate puts the staffing effect at 2 per cent at the outside by the end of the 1980s. Automation of mail handling will largely be accomplished using electro-mechanical systems, but the development of optical character recognition devices (for reading post-codes) could threaten the jobs of coding desk operatives (about 2,000 in all). Viable systems have yet to be developed in this area.

## V Employment Issues

31 This section is essentially concerned with practical aspects of adaptation to new technology, in other words with the essential prerequisites to successful adaptation and how they may best be achieved. For example, in its visit to Japan the Study Group was concerned to discover how the Japanese manage to be in the forefront in exploiting new technology without exciting fears about unemployment - and indeed with how they have so far managed at least superficially to preserve full employment. The essential elements, in the view of the Study Group, are:-

- a) the lifetime employment guarantee given by Japanese companies to their employees;

- b) the willingness of companies to diversify and expand output in order to honour those guarantees;
- c) a company union structure in which craft demarcation is not a significant feature; and
- d) a generally high standard of initial education supplemented by company training, making for a highly flexible and adaptable labour force.

The Study Group has found striking parallels for most of these conditions in several British companies, and has noted a high correlation between the presence of these features and a high rate of innovation in the companies concerned.

#### Industrial relations aspects

32 The job-destroying potential of new technology has quite naturally been a subject of considerable concern to trade unions. The recent TUC report 'Employment and Technology' put forward the suggestion that major innovations should be the subject of technology agreements between managements and unions. Key elements in these proposed agreements included the following:-

- a) early and comprehensive consultation with full union access to information;
- b) joint union bodies on the employee side;
- c) new technology should be seen as providing opportunities for increased output and/or diversification;
- d) wherever possible job security should be guaranteed as should individual earnings and status;
- e) appropriate training for job adaptation should be provided.

In general such matters must remain the subject for consultation between managements and unions, and not all of the above suggestions will be appropriate to all individual circumstances. The TUC document itself accepts that redundancy will be the inevitable consequence of innovation in some cases. Nonetheless there is striking similarity between the approach recommended by the TUC and what is already standard practice in (say) Japan and best practice in Britain. In particular it is worth stressing that the Study Group has come across very few companies that expect new technology to lead to redundancies. Thus the scope for no redundancy agreement



appears to be considerable. On the other hand there is much evidence that a number of firms will wish to be able to deploy skilled labour with much greater flexibility if they are to innovate successfully; and it will therefore be important that unions recognise that this is an important quid pro quo that they will have to offer if managements are to accept the various elements of the TUC approach.

### Work sharing

33 The TUC document lays stress on the desirability of using various means of work sharing in order to reduce the impact upon jobs of new technology. The view of the Study Group is that long term technological unemployment is by no means an inevitable consequence of the widespread use of new technology. The Department of Employment has already done a considerable amount of analysis of the likely affects of various approaches to work sharing including reduction of normal working hours; increasing holiday entitlement; reducing overtime working; and early retirement. This analysis was carried out against the background of alleviating unemployment arising largely from cyclical causes, but much of it is equally relevant to unemployment hypothetically caused by technological change. In general it was concluded that all of the first three approaches to work sharing, if undertaken unilaterally would be more likely further to erode Britain's competitive position than to create new full-time jobs. Given the fact that new technology is likely to lead to the creation of a more highly specialised work force this is likely a fortiori to apply to any attempt to alleviate technological unemployment by such devices. On the other hand where early retirement is concerned the criterion of reversibility, which makes this an unattractive course in the case of cyclical unemployment, would weigh less heavily if the unemployment arose from technological causes. Whether a general or a selective approach would be most appropriate would depend upon the precise nature and spread of technological unemployment.

### Training for innovation

34 Where a company is taking its first steps in the field of micro-processor technology a distinction has to be made between one which is already in the electronics field and one which is not. The greater the 'technical distance' of a company from electronics

engineering the greater the problems (especially psychological ones) that it may face in moving into the exploitation of micro-electronic technology. In studying the process of innovation the Study Group tried to identify companies with considerable technical distance from the electronics field. In general companies which have already acquired experience in electronics systems have much less difficulty in defining either their objectives or the requirements that have to be satisfied in order to meet those objectives.

35 The Study Group found, contrary to some views, that the absence of any electronics expertise on the staff of a company is not an insuperable obstacle to it embarking upon microelectronic innovation. There are a number of examples of companies which have begun from the realisation that the incorporation of microelectronic systems could enhance either products or processes and have then turned to consultancy services to advise them on the most appropriate applications and on how to set about making those applications. At an early stage the company will send some of its (non-electronic) engineers on short courses; another early step may well be recruitment of specialist electronics engineering skills. If a company wished to innovate using in-house resources only, the expertise it would require would be applications expertise which by definition arises from experience rather than training, though a microelectronic content in non-electronics courses undoubtedly makes it easier to acquire that experience.

36 Beyond the stage of initial innovation there seems to be greater commonality of experience between companies of their new personnel requirements. The following is a list, with comments, of the areas of need (and shortage) that have most often been mentioned to the Study Group:

Electronics engineers: a universally perceived shortage;

Electronic test technicians: required for final test of products incorporating microelectronic components; a widely perceived shortage;

Electronic maintenance technicians: generally felt that this requirement can be met by retraining suitable craftsmen electricians, but structural/demarcation problems are likely to arise



Software skills: needed in all areas of microelectronic and computers application. Shortages exist at all levels of software skill;

Hardware/software skills: Particularly relevant to higher level applications and in very short supply;

Control theorists: felt to be a gap in course provision by institutions of higher education. Available courses are mainly post-graduate. Control theorists particularly sought by the chemical process industry.

### The role of training

37 The responsibility for training must rest primarily with firms. It should be borne in mind that all of the above categories of shortage are a great deal less precise than they look, and each will mean many different things according to the nature of the company and the application. In general the most innovative companies recognise this and meet most of these training and retraining requirements from in-house resources.

38 In considering the contribution that Government can make towards solving the shortage problems discussed above, two general points must be emphasised. The first is that a considerable task of definition of need has to be carried out if new courses are to meet genuine needs. The TSD in conjunction with the ITBs are involved in this task which will continue. The second is that this section of the report is concerned with shortages that are perceived in relation to microelectronic technology. There are also, of course, widespread shortages of qualified manpower at graduate, technician and craft level in many more traditional skills. Unless the structural problems leading to this situation are overcome it is unlikely that we shall solve in relation to a new technology problems that we have failed to solve in relation to older technologies.

### Retraining

39 Foregoing sections of this report make it clear that in the view of the Study Group any reduction in manpower as a result of microelectronic technology will overwhelmingly be achieved by natural wastage; and this applies equally in manufacturing industry and in the service sector. The jobs that will be 'wasted' will be relatively low in skill content, and this will mean that the brunt (if any) will largely be borne by school leavers or would be re-entrants to the labour market. In this sense the solution to the problem is more in the field of initial education than in that of retraining. The TUC report on employment and technology acknowledged that a massive expansion of public training provision would achieve less than superficially it might appear. Notwithstanding these considerations a strong case can be made, for trying through existing Government training schemes to adopt more ambitious aims in the training of the relatively unskilled.

### Conclusion and Government Policy

40 Microelectronic technology has given rise to widespread predictions of imminent revolutionary change. A persistent theme emerging from the many study visits carried out in connection with this project has been that change will be evolutionary - but that the process has so far been a dangerously slow one in Britain. Those who have taken the 'revolutionary' view have often urged that immediate changes in Government policy are needed if disaster is to be avoided. Such arguments are not only based upon a premise that seems to the Study Group to be a false one; they also tend to ignore the existing infrastructure of policy in the field of employment and training which is capable of being adapted to meet evolving circumstances. Within five years we expect to see little quantitative impact upon employment from new technology, though the detailed monitoring of areas identified in this report as 'at risk' will be important. By the end of the 1980s it is probable that there will be an identifiable reduction, especially in the service sector, in job opportunities for the relatively unskilled. Microelectronic technology, in short, will accentuate a problem that we already have, and for which we are already paying a price: too high a proportion of our labour force is unskilled. This points strongly to education as the priority area, with continuing emphasis on the problem of low achievement.



6 MSC's Direct Training Services are offering and providing training for employers in the advanced electronics field, and MSC is incorporating microelectronics where appropriate into the Training Opportunities Scheme (TOPS). All MSC Skillcentre instructors involved in electrical/electronic courses are receiving training in digital and microelectronics techniques and course content is being regularly updated. TOPS is currently supporting 17 Technician-level courses in electronics/microelectronics at Colleges and plans to support at least 27 by the end of 1980.

7 MSC is also working with the Inter-ITB Group on Administrative, Commercial, and Clerical Training to produce a discussion document on training implications of new office technology, and has helped develop TEC units in microelectronics and is considering with DES and BEC the provision of microprocessor and computer content in BEC courses at school and post-experience level.

8 Under the Training for Skills Programme and TOPS the MSC is giving high priority to increasing the supply of the general engineering skills relevant to the exploitation of micro-electronics. Under Training for Skills substantial MSC support is being given in 1979-80 to engineering training both in the engineering industry and elsewhere.

#### Computer Skills

9 In response to growing concern about the initial and increasing shortage of computer personnel, TSD set up a working party on computer occupations in the Autumn of 1978 whose recommendations were subsequently approved by the MSC and are now being implemented.

10 A 3-year computer occupations programme started in September 1979 under the MSC's Training for Skills initiative, for grant support for three new computer training courses and increased utilisation of existing facilities. The existing National Computing Centre's 'Threshold Scheme' for unemployed young people is to continue with a revised syllabus and provision for increased annual throughput. A new initial programmer course using a similar syllabus is also being introduced for new entrants sponsored by an employer. Together these courses should boost throughput in basic computer programming training to around 1500 places in each of the next 3 years through Industrial Training Boards and other national training organisations.

11 An entirely new pilot course lasting 24 weeks for real time programmers is also being introduced for graduates and experienced computer staff and up to 250 grants will be available to industry through Industrial Training Boards in each of the 3 years. A further 500 grants each year will also be available to employers sponsoring employees for system analysis training through a new 10 week integrated course designed to enable people with some business experience to enter computing.

12 In addition provision will be made for TOPS courses in programming and systems analysis to be increased to around 2500-3000 each year over the 3 year period.

13 Grants for the New Entrant Programmer and Systems Analysts courses may still be available for the current academic year through the appropriate ITBs and other national training organisations.

14 The main purpose of the new programme is to pump prime further effort by industry itself which must retain the main responsibility for meeting its skill needs.

#### Further MSC Action

15 For the future the MSC has decided that a range of training relevant to microelectronics be given high priority in MSC expenditure on TSPA. In addition MSC is considering what further research and monitoring activity on microelectronics training needs it should mount following the report of DE's Manpower Study Group.



DRAFT

EMPLOYMENT TRENDS

Note by the Secretary of State for Employment

1. New technology cannot be considered independently of past and present employment trends. There is a tendency to view new technology as a foreign intrusion upon a generally static structure of industry and employment. The truth is that there has been a great deal of evolution in the last twenty years, much of it itself due to technological change.

2. The main features of employment trends in the last twenty years are set out in the attached note by officials. Key points to emerge are:-

- A slow decline in employment in manufacturing industry, which nevertheless still accounts for 40% of total employment - more than in most other countries.
- An increase in employment in service industries, in the number of married women and of part-time workers in the labour force. These three phenomena are connected.
- Nevertheless, many gains and losses have occurred against the trend within these broad sectors.
- A decline in unskilled manual employment.
- Emigration of manufacturing employment from inner city areas.

3. The Appendix also discusses future labour supply, sources of new employment and the role of small firms in the job generation process. The growth in labour supply, the decrease in non-manual employment and the decline in unskilled manual occupations are expected to continue. A large proportion of new jobs since 1966 have been generated by public services, in particular the "non-traded"

services (health, education, national and local government and research and development); however, since 1976 more jobs have been generated in the private than public sector. The number of small firms and their share in economic activity has been declining in the UK at least until the early 70's. Recent American research has indicated that small and new firms have an important part to play in the job generation process. The Appendix concludes that the implications for employment and industrial policy are unclear - it does not follow that efforts on stimulating job creation should be concentrated on small firms. I do not question this but believe that small firms are such a source of innovation and initiative that they should be given every encouragement.

4. The evidence in the Appendix suggests that the labour market has shown considerable flexibility in the last 20 years in response to changes in industrial structure on the one hand, and size and composition of the labour force on the other. However, the evidence suggests some slowing in the pace of industrial change especially in the period since 1973; and a decline in inter-regional movement of employment. While this may owe something to industrial policies sheltering certain industries and companies from the need to change it is probably also connected with the slower rate of economic growth in the last 5 years, and suggests that the adaptability of the labour market may be related to the level of economic activity. The process of adaptation to industrial change has been, and will be, painful sometimes to some people. And, clearly, if the British economy declined seriously, there is little hope of avoiding higher long-term unemployment.

5. In the shorter term some rise in unemployment seems almost inevitable as a result of the current slowing of world trade and other factors. It does not follow that high unemployment will be extended into the longer term through technological change. In the past technological change has brought compensating employment gains in manufacture of new consumer goods and capital equipment.



The DE Manpower Study Group's report indicates that the introduction of microprocessor technology could have the same effect. This is not to deny the vital importance of improving the performance, productivity and competitiveness of our manufacturing industry; this is indeed a pre-condition for full employment. These issues have been discussed by Council at previous meetings and are dealt with more fully in NEDC(79) and NEDC(80) .

## EMPLOYMENT TRENDS

Note by Department of Employment

### INTRODUCTION

1. This paper outlines the main trends in employment and labour supply over the last twenty years (Note 1), analyses some aspects of the sources of new jobs, and identifies some issues for future attention.

### PAST TRENDS

#### Labour Supply

2. Between 1961 and 1978 the Labour Force (Note 2) is estimated to have grown by just over 11% or by 2.7 million men and women. The growth is more than fully accounted for by an increase of 3 million (80%) married women that more than offsets decreases of nearly 100,000 men and 300,000 non-married women.

3. The increased number of married women in the labour force reflects increases in their activity rates. The proportion of married women at work rose from 29.4% in 1961 to 48.9% in 1976 and to an estimated 50.7% in 1978. Among men and non-married women activity rates fell slightly (mainly because a growing proportion of young people go on to full-time further and higher education) and offsetting demographic changes were not sufficient to prevent a fall in their numbers.

#### Employees in Employment

4. The number of employees in employment was 5.9% higher in 1978 than in 1959, and the number of self-employed and employers also rose. However, these increases were less than the growth in the labour force and the number of registered unemployed rose.

5. The rise in overall numbers of employees in employment masks considerable variation between sectors. Non-manufacturing employment rose by just under 2 million between June 1959 and June 1978, while manufacturing employment fell by 0.7 million from 7.9 million in 1959 to 7.2 million in 1978. The biggest increase in employment came in professional and scientific services (primarily



health and education). The slow decline in manufacturing employment is a trend shared with all the major OECD countries except Japan. However in 1977 manufacturing in the UK still accounted for a larger proportion of total employment than any of the other OECD countries with the exception of West Germany (see Annex A).

6. The growth in the service sector is paralleled by a rapid growth in the number of women in the labour force; nearly three-quarters of female employees work in this sector. It is also reflected in the increase of part-time work, which accounts for some four-fifths of the increase in the female labour force between 1961 and 1976. The growth of part-time work in the service sector has absorbed most of the increased economic activity among married women.

7. Between 1961 and 1978 the share of non-manual jobs in total employment rose from about 38 per cent to 46 per cent. This general trend predates 1961 and is expected to persist; on reasonable assumptions, manual and non-manual jobs might each be expected to account for about half of total employment by the mid-1980s. In the non-manual category there was persistent growth in managerial, professional, technical and clerical employment, and also in personal service occupations. In the manual category craftsmen with engineering and other transferable skills maintained their share of total (manual and non-manual) employment, but there were reductions among craftsmen with skills specific to declining industries. These broad trends are expected to continue in line with requirements of industrial and technical change; some illustrations are given in Annex B.

8. There were 1.67 million employers and self-employed in 1961, rising to a peak of 1.88 million in 1973 and declining to 1.83 million in 1975, the last year for which an estimate is currently available. Most of the change was accounted for by the construction industry. There is little or no evidence either to support or to refute the popular impression of a sharp growth in the numbers of self-employed since the mid-1970s.

9. Boundary changes make regional comparisons difficult but comparable figures exist for the period 1966-1975 during that time the regions of the UK where employment increased were East Anglia (11%), East Midlands (1.3%) and Northern Ireland (5.7%). The regions with the greatest decline were West Midlands and North West (7%). In manufacturing industry there were employment gains only in East Anglia (13%), and the biggest losses were in South East (23.5%) and North West (20%). Female employment increased substantially in all regions, but in manufacturing industry it declined in most regions.

### The labour force: projections

10. According to the most recent projections the total labour force is expected to increase by 2.3 million between 1976 and 1991. About 35% of the increase is expected to be male, almost half married females. The activity rate of males is projected to remain fairly constant, the increase in the male labour force being entirely due to demographic changes. There is considerable uncertainty about the future numbers of married women in the labour force (many of whom in any case will only be available for part-time employment). The projections assume a further rise in activity rates and a further increase in the number of married women of working age.

11. These projections, like all others, are based on the assumption that current trends continue to evolve in the future as they have in the past. They must, therefore, be used with caution. This is particularly true of the projections for married women for their activity rates may be sensitive to the demand for their labour.

### SOURCES OF NEW EMPLOYMENT

#### Sectors

12. The changing contributions to employment growth of manufacturing industry, public services, private services and other industries (primary, construction and utilities) are shown in the table below. In each successive sub-period manufacturing has accounted for a smaller proportion of employment gains and a larger proportion of employment losses. In the two later sub-periods, public services have accounted for the largest share of total employment gains, accounting for over half total gains in the period 1966 to 1973. The non-traded public services accounted for nine-tenths of these gains. Compared with private services, the public services also accounted for a far smaller proportion of total employment losses in the two later sub-periods.

Proportion of Total Employment Gains and Losses Generated by  
Sector (%) (see Note 3)

	<u>1959-66</u>		<u>1966-73</u>		<u>1973-78<sup>++</sup></u>	
	gains	losses	gains	losses	gains	losses
Primary Sector	0.1	41.8	0.1	15.6	0.3	7.0
Manufacturing	31.7	37.9	12.3	42.9	6.9	59.5
Construction	8.9	0	0	12.0	0	12.6



	<u>1959-66</u>		<u>1966-73</u>		<u>1973-78</u> <sup>++</sup>	
	gains	losses	gains	losses	gains	losses
Utilities	2.0	0.8	0	4.0	2.0	1.7
Private Services	30.7	7.2	37.2	19.7	45.0	13.3
Public Services <sup>+</sup>	26.6	12.4	50.4	5.9	45.9	6.0
of which - non-traded public services <sup>+</sup>	(23.9)	(0)	(46.3)	(0)	(45.2)	(0.4)
TOTAL	100	100	100	100	100	100
	(2,850,000)		(1,063,000)		(1,614,000)	
	(2,217,000)		(970,000)		(948,000)	

<sup>+</sup>Public Services encompass railways, road passenger transport, air transport, postal services and telecommunications, education, health, national government, local government and research and development. The Non-Traded public services encompass education, health, national government, local government and research and development.

<sup>++</sup>The 1978 figures are provision. Provisional figures for the period June 1976-June 1979 suggest that at least three-quarters of the 300,000 increase in employment occurred in the private sector. It is too early to say whether this represents a change in previous trends.

13. The Department of Employment has recently carried out an analysis which suggests that some 30% of non-manufacturing output is ultimately dependent on the level of demand for manufactured goods.

14. While the industrial structure of employment has clearly changed since 1959, it is difficult to evaluate by how much it has changed. A simple measure of the pace of change (described in Annex C) suggests that the pattern of employment changed more rapidly before 1966 than it did afterwards. Much of the difference is accounted for by some particularly wide variations in the growth or decline of employment among half a dozen of the biggest manufacturing industry groups in the period 1959-66.

#### Regional and local job generation

15. From patchy and disparate data it can be tentatively deduced that variations exist in the rate of job generation in different regions. For instance, the

East Midlands appears to have been more successful than Scotland in internally generating additional jobs, and the West Midlands, perhaps surprisingly, appears to be generating few jobs in new establishments.

16. Relative changes in employment between regions are caused to a large extent by migration of firms and establishment of branch plants. Regional policy, actively pursued by successive Governments over the last 20 years, has encouraged this process; as may be expected, the assisted areas have in general gained most from the establishment of branch plants from outside the region. The evidence suggests that inter-regional movement has declined in employment significance.

17. London and the other conurbations have experienced substantial losses of manufacturing jobs; much of this is accounted for by outward migration, for instance from London to East Anglia.

#### Small Firms

18. The number of small firms and their share in economic activity has been declining in most advanced countries, but until recently further and faster in the UK than elsewhere (Note 4).

19. A recent major study by David Birch of MIT on "The Job Generation Process" has attracted a good deal of attention (see Annex D). It concluded that small and young firms provided the bulk of new jobs generated in the United States between 1969 and 1976. No comparable work has been done in Britain, but such studies as have been done point to a similar conclusion. A survey of establishments in manufacturing and some non-manufacturing industries indicates that between June 1975 and June 1978 in small establishments (employing under 25 employees) employment rose by 280,000, but in establishments employing 100 or more employees employment fell by 320,000.

20. The implications of this, and indeed the results of the Birch study, are unclear. One finding of Birch's which is often overlooked is that 'a big gain in the past tends also to lead to a higher than average expectation of a big loss'. So it cannot be lightly concluded that efforts on stimulating job creation should be concentrated solely on small firms.



# NOTES

(1) Wherever possible the data presented applies to the years 1959-1978. However, in many cases, and for various reasons (particularly where Census of Population material is used), the information is not available for the precise time-span.

(2) The labour force includes all those who are working or seeking work, or who are prevented from doing so by temporary sickness. It therefore includes numbers of employees in employment, self-employed and employers, the registered unemployed, the unregistered unemployed and the temporarily sick.

(3) The table is derived by using employment figures for individual industries (Minimum List Headings of the Standard Industrial Classification) to measure whether the industry grew (gains) or declined (losses) and summing the figures of gains and losses for the industries within individual sectors. There are 4 MLH's included under the primary sector, 121 under manufacturing, 1 under construction, 3 under utilities and 43 under services.

(4) Findings of the Bolton Committee on Small Firms (1971).

ANNEX A - Change in Distribution of Employment between  
Agriculture Industry and Services 1961-1977

	1961	1966	1971	1977
CANADA				
Agriculture	13.0	9.0	7.5	5.7
Industry	32.7	34.2	31.0	28.9
Services	54.2	56.8	61.6	65.5
USA				
Agriculture	7.9	5.6	4.4	3.7
Industry	32.8	36.0	32.8	30.9
Services	59.3	58.4	62.6	65.3
JAPAN				
Agriculture	29.0	22.2	15.9	11.9
Industry	29.9	32.7	36.1	35.4
Services	41.1	45.1	48.1	52.6
BELGIUM				
Agriculture	8.3	5.9	4.4	3.3
Industry	47.0	46.4	42.7	37.9
Services	44.6	47.6	53.0	58.8
FRANCE				
Agriculture	21.6	17.1	13.1	9.7
Industry	38.1	40.1	39.7	37.6
Services	40.3	42.8	47.2	52.7
GERMANY				
Agriculture	13.1	10.6	8.2	6.8
Industry	49.4	49.0	49.0	45.3
Services	37.4	40.5	42.9	48.0
ITALY				
Agriculture	31.0	25.3	20.3	15.9
Industry	38.2	37.2	39.9	38.6
Services	30.8	37.5	39.8	45.6
NETHERLANDS				
Agriculture	10.9	8.5	6.9	6.3
Industry	40.5	40.4	37.7	33.3
Services	48.5	51.1	55.6	60.5
UK				
Agriculture	4.0	3.7	3.1	2.7
Industry	48.8	46.4	43.9	39.9
Services	47.2	49.9	53.1	57.2

Source - OECD Labour Force Statistics



## OCCUPATIONAL EMPLOYMENT TRENDS

1. Changes in proportions of the labour force employed in various occupations reflect both changes in occupational balance within each industry and changes in the industrial balance of the national economy. These developments have been analysed and used to aid projections of future occupational change as part of a programme of research commissioned from Warwick University by the Manpower Services Commission.
2. The analysis shown below is in terms of Warwick's occupational categories (related to, but not identical with, KOS major groups) and drawn from their forthcoming publication "Economic Change and Employment Policy". Most of the growth in managerial, technical and clerical employment between 1961 and 1978 arose from increasing proportions within each industry - as also was true of non-manual employment as a whole - whereas the growth in professional employment owed more to expansion of the corresponding services, particularly health and education, within the national economy. Among manual occupations, the decline in operative employment was largely a result of falling labour requirements in manufacturing industries, though even within manufacturing there was a relative shift away from operatives towards more highly trained personnel associated with technological change.
3. The projections to 1985 are derived from economic forecasts, through input-output relationships giving expected industrial output, and productivity assumptions giving corresponding industrial employment projections. Occupational employment within each industry is then estimated from inter-Censal trends, as modified by partial data available up to 1978, which are projected forward to 1985.
4. Estimates obtained in this way for absolute numbers employed in each occupational category in 1985 are clearly sensitive to the margin of forecasting error in predictions of national income and output, productivity, employment, and other components of <sup>the</sup> main forecast, and thus liable to variation in the light of changes in Government policy, international trade, and other factors liable to alter the main forecast. Projections of relative occupational shares are less dependent on changes in total employment, and hence appear less sensitive to these forecasting uncertainties, though they may be affected to a limited extent by changing requirements in industries such as engineering and construction that fluctuate with variations in economic growth rates and investment ratios in the national income.
5. The table overleaf indicates a broad continuation of the trends noted at paragraph 7 of the main paper and paragraph 2 above.

OCCUPATIONAL SHARES OF TOTAL EMPLOYMENT

Occupational Category	Percentages				Numbers 1978 Thousands
	1961	1971	1978 Estimated	1985 Projected	
Managers & administrators	6.6	7.8	8.7	9.6	2,146
Education professions	2.3	3.1	3.8	4.0	933
Health professions	2.5	3.2	3.8	4.6	942
Other professions	1.9	1.9	2.2	2.5	536
Literary, artistic & sports	1.2	1.4	1.7	2.2	432
Engineers & scientists	1.7	2.1	2.4	2.6	577
Technicians & draughtsmen	1.8	2.1	2.4	2.7	591
Clerical occupations	14.0	15.0	15.9	16.7	3,919
Sales occupations	5.6	5.4	5.5	5.4	1,360
Supervisors & foremen (a)	0.7	0.5	0.4	0.4	106
Engineering craftsmen	9.0	9.5	9.1	8.7	2,250
Other transferable craftsmen	4.5	3.8	3.4	3.1	828
Non-transferable craftsmen	6.2	4.2	3.5	2.6	833
Skilled operatives	3.2	3.1	2.7	2.3	669
Other operatives	22.9	20.4	18.5	16.3	4,553
Security occupations	1.0	1.3	1.2	1.3	297
Personal service occupations	8.9	10.5	11.2	12.1	2,770
Other occupations	6.1	4.8	3.8	2.9	921
Non-manual	37.5	41.9	46.3	50.3	11,435
Manual	62.5	58.1	53.7	49.7	13,228
Whole economy (b)	1.000	1.000	1.000	1.000	24,663

(a) In engineering and transport only

(b) Excluding H M Forces



ANNEX C: THE PACE OF CHANGE IN THE STRUCTURE OF EMPLOYMENT

- A1 It is clear that the industrial structure of employment has changed substantially since 1959; but it is difficult to design a straightforward measure that will measure either the pace of change or its extent. A number of more or less sophisticated measures are available and, for this exercise, a relatively simple indicator has been chosen. The measure consists of the sum of the divergences (irrespective of whether they are positive or negative) between the actual change in employment in an industry and the change that would have occurred if that industry had enjoyed a share of the increase or decrease in total employment equal to its share of total employment at the beginning of the period under examination. In other words the indicator measures the difference between what would have happened if each industry's share of employment had remained constant and what actually happened to each industry's share of total employment.
- A2 This measure does not give an unambiguous measure of the rate of change because the amount of change observed in any period depends upon the level of aggregation. Thus the sum of divergences by MLH will generally be greater than the sum of divergences by SIC because there are more MLHs than SICs. However, provided the level of aggregation is the same throughout the period, the measure will show whether or not the rate of change in the pattern of employment is speeding up, slowing down or remaining constant.
- A3 The first two lines of table A1 show that between 1959 and 1975 the divergence between the actual pattern of employment in 1978 and the pattern that would have obtained had all industries grown or declined at the same rate since 1959 was equivalent to an annual average movement between industries of 409 thousand jobs; equivalent to almost 2% of employment in 1959.

subsequent periods observed in the first two lines of table A1 reflects a slower pace of change within manufacturing after 1966. In turn this seems to be attributable to an exceptionally large number of big divergences between the growth of employment in manufacturing as a whole between 1959 and 1966 and the experience of some manufacturing SICs. While many of these big industries reappear as major contributors to change in the periods after 1966 they do so at different times and changes <sup>in</sup> employment are therefore more uniform across the manufacturing SICs.



EMPLOYMENT IN SMALL FIRMS : AMERICAN STUDY

1. A recently published research report by David Birch of the Massachusetts Institute of Technology says that "small firms (those with 20 or fewer employees) generated 66% of all new jobs generated in the United States between 1969 and 1976". Firms with 21 to 50 employees generated 11%, those with 51 to 100 employees 4%, those with 101 to 500 employees 5% and those with over 500 employees 13%. "Young firms (those less than five years old) play a crucial role, generating about 90% of all replacement jobs".
2. Some limited information on a similar basis is available for Great Britain. It relates to a survey of establishments in manufacturing and some non-manufacturing industries and shows that, between June 1975 and June 1978, employment in small establishments (those with 25 or less employees) in these industries rose by 280,000 whilst those in larger establishments (with 100 or more employees) fell by 320,000.
3. However the implications for policy purposes of these figures are far from clear. Birch's analysis showed that there is no guarantee that a firm which has grown will remain at its new size; for example, "a big gain in the past tends also to lead to a higher than average expectation of a big loss. Volatility cuts both ways; what has gone up has a higher than average tendency to go down in the next period".
4. Both Birch's work and the figures for Great Britain are consistent with the phenomenon typical of many statistical distributions which are relatively stable over time, but are characterised by a continuous process of those at the bottom moving up, those at the top moving down and those in the middle moving out in both directions. Changes in employment size of firm may be an example of this phenomenon. If so, there are very substantial problems in identifying those firms which will expand and maintain their new size.
5. There are three possible conclusions to be drawn:-
  - (i) by any interpretation, small firms play an important part in the job generation process;
  - (ii) young and dynamic firms do, however, have a high rate of failure or contraction; therefore the cost-effectiveness of small firms policy needs to be considered;
  - (iii) encouraging stability in existing firms may be as effective in employment

terms, in overall terms, by encouraging the creation/expansion of small firms - though this may have adverse effects on the creation of a dynamic industrial structure.



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NOTE FOR THE RECORD

Mr. Geoffrey Chandler, the Director General of NEDO, called on the Prime Minister at 1005 hours today.

Mr. Chandler said that the purpose of his calling was to brief the Prime Minister on the NEDC as background for the 9 January meeting which she had agreed to chair. The general atmosphere at the Council had so far been good under the present administration. The discussions were frank and tough, but at the same time informal and cordial. The Chancellor was an excellent chairman. However, the atmosphere was likely to become more difficult from now on, especially after the row over the NEB. He believed that the majority of trade union leaders wanted the trade unions to remain within NEDC and the little Neddys, but the position would require careful handling. The meeting the following day to discuss the economic prospect was likely to be especially difficult. But Len Murray was certainly doing his best to "build bridges" and stop the trade unions from walking out.

The January meeting would focus mainly on investment, R&D and technological change. These aspects would come up briefly at this Wednesday's meeting, and were likely to be - if anything - the few positive points to emerge from that meeting. There would thus be a natural linkage to the January meeting. The TUC would be putting in a paper drawing on their earlier booklet which should be quite helpful. But they would be looking for trade-offs from the CBI on dissemination of information and from the Government on support for new technology and training. (On the CBI front, Mr. Chandler said that a recent ~~Q&A~~ survey showed that 50 per cent of all firms had no effective communication with their employees.)

In addition, the January meeting would have an oral report from Mr. Atterton, the Chairman of Foseco Minsep and the Chairman of the Iron and Steel SWP, on the work of his SWP.

/It would be



It would be helpful if the Prime Minister could indicate at the January meeting her own views on technology and what measures the Government intended to take in support: he hoped that she would be able to do all she could to help the TUC. Mr. Chandler went on to say that Len Murray would probably not be able to attend the January meeting. He had arranged a holiday, and was loath to break into it. This was partly simply because of the difficulty of getting back from Madeira in the middle of his holiday, but also he did not wish to give the impression with his trade union colleagues that he always had to be present: they ought to be able to manage on their own. In Mr. Murray's absence, David Basnett would be leading for the TUC side. Terry Duffy, Frank Chapple and Geoffrey Drain would also be there and, also Moss Evans (though his attendance was less reliable).

The Prime Minister said that she would much prefer it if Len Murray could be persuaded to attend. She asked Mr. Chandler to see what he could do to persuade him to. Mr Chandler agreed and said that he would report back to us.

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4 December 1979



10 DOWNING STREET

*From the Private Secretary*

4 December 1979

Mr. Geoffrey Chandler called on the Prime Minister this morning. They had a general discussion about the December and January NEDC meetings.

One point which I ought to record is that Mr. Chandler told the Prime Minister that Mr. Murray was unlikely to be present at the January meeting. This was because he was planning to be on holiday abroad at that time. The Prime Minister said that she would prefer it if Mr. Murray could attend, and asked Mr. Chandler to see if he could persuade Mr. Murray to break into his holiday.

Mr. Chandler has since told me that he has spoken to Mr. Murray, who has taken note of the Prime Minister's point. He (Mr. Murray) intends to consider the matter further in the light of tomorrow's NEDC meeting. Apparently, he feels that if tomorrow's meeting goes well and if there promises to be no difficulty with the January meeting, he would prefer not to attend. This is not just because of his not wanting to break into his holiday; he is also concerned that, if he were to make a special effort to attend, his trade union colleagues might take umbrage - on the grounds that he would not appear to have confidence in their ability to handle the January meeting. However, if tomorrow's meeting goes badly and it appears that the January meeting is going to be difficult, Mr. Murray will seriously consider attending it.

Notwithstanding what Mr. Murray has told Mr. Chandler, I am sure the Prime Minister would still wish - if possible - that Mr. Murray can attend the January meeting. Perhaps the Chancellor and the Secretary of State for Employment might consider how they could persuade him.

There is one other point which you should be aware of. The Prime Minister would like to have the papers for the January meeting so as to be able to read them over the Christmas holiday period, together with the necessary briefing

/ from Departments.



from Departments. The briefing will presumably include a speaking note for her introduction to the meeting.

I am sending a copy of this letter to Ian Ellison (Department of Industry) and Ian Fair (Department of Employment).

J. P. LANKESTER

M.A. Hall, Esq., M.V.O.,  
HM Treasury.

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PRIME MINISTER

Meeting with Mr. Geoffrey Chandler

Mr. Chandler is coming to see you to brief you generally on the NEDC and NEDO, and on the items to be taken at the 9 January meeting which you are to chair.

The January meeting will focus mainly on technology and industrial adjustment, with particular emphasis on micro-electronics. There will also be a report from one of the sector working parties.

Mr. Chandler may also wish to take you over this Wednesday's NEDC meeting, which will be devoted to discussion of the economic outlook. The Chancellor, the CBI and the TUC - as well as the Director General himself - have all circulated papers for this meeting. They are universally gloomy about the short-term prospects; but the prescriptions of course differ. (You might glance at the TUC paper at the back of this folder to see just how far they are from the Government in their unreconstructed Keynesian approach.) Mr. Chandler and the Chancellor will be trying to avert a row with the TUC members at this meeting, and possibly their walking out, as a result of the NEB Board's resignation/dismissal. I understand that Len Murray is reasonably confident that he can persuade his people to stay in the NEDC and the little Neddies, provided they get something positive out of the meeting: for example, an affirmation that the Government attaches importance to the work of the NEDC and the little Neddies, and some indication that the Government is willing to listen to the TUC's views rather than reject them out of hand. If that is what is required, the Chancellor should not have much difficulty.

Mr. Chandler took over at NEDO in July, 1978. He spent most of his previous career with Shell, where he ended up Director in charge of PR. Before that, he was Managing Director of one of their

/ operating



operating companies. You might glance at a recent speech which he made (Flag A). This argues the role of industrial policy in quite a helpful way.

12.

3 December, 1979.

1. MR BUTT
2. CHANCELLOR OF THE EXCHEQUER

cc PS/Chief Secretary  
 PS/Financial Secretary  
 PS/Minister of State (C)  
 PS/Minister of State (L)  
 Sir Douglas Wass  
 Sir Lawrence Airey  
 Mr F Jones  
 Mr Unwin  
 Mr Dixon  
 Mr Bridgeman  
 Mr Cassell  
 Mr Bottrill  
 Mr P G Davies  
 Mrs Heaton  
 Mr P Rayner  
 Mr Folger  
 Mr A N Ridley  
 Mr Macdonald - DOI  
 Mr Ekins-Dawkes - DoTrade  
 Mr Whybrew - D/Employment  
 Mr I Williams - D/Energy

NATIONAL ECONOMIC DEVELOPMENT COUNCIL: WEDNESDAY 5 DECEMBER

Attached is the Chairman's Steering Brief for the above meeting, together with background briefs (including speaking notes) covering the main specific issues likely to arise during the discussion.

2. We regard the brief as provisional at this stage. It may be that some changes will be needed to reflect the outcome of your private talk with Sir John Methven, and then with Mr Murray. Similarly, points may arise from the meeting Sir Douglas Wass will be having with Sir John Methven, Mr Murray and Mr Chandler on Monday. Also, some of the background briefs have yet to be finalised, and others may need updating now that the CBI and TUC papers are available.

*M. Prescott*

M PRESCOTT

30 November 1979



NATIONAL ECONOMIC DEVELOPMENT COUNCIL: WEDNESDAY, 5 DECEMBER

CHAIRMAN'S STEERING BRIEF

PROCEDURAL

Agenda

There is only one substantive item: The UK Economic Situation and Outlook. There are four papers - from NEDO, the CBI, the TUC, and the Chancellor - and it is suggested that they should be taken in that order. It is envisaged that the meeting will be the normal duration - 2/2½ hours.

Attendance

At the time of writing, apologies for absence had been recieved from Mr Whittall. The CBI and TUC will have been forewarned that Sir Leslie Murphy has stood down following his resignation from the NEB. [The Chancellor may wish to mention this, and to say that he has expressed thanks to Sir Leslie on behalf of the Council.]

Briefing

Substantive briefing on specific points likely to arise in the discussion is contained in separate briefs annexed hereto. (List of Briefs at Annex A)

OBJECTIVES

1. These must be fairly modest. It is unrealistic to expect any general endorsement of the Government's policies - especially from the TUC. This meeting of the Council is also experimental. There have been general economic discussions from time to time in the past but these have usually been in the specific context of an immediately pre or post Budget situation. Moreover, the Council is a deliberative and not a decision making body, and probably the most that can be achieved is some improved mutual understanding between the parties about economic objectives, and about how each perceives the scope and limitations for achieving these. But, within this, the Government's aims might be:

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to make clear the nature and rationale of its economic policies, and to demonstrate that there are no viable alternatives;

b. to draw out areas of common ground. (Propositions on which most of the parties may be able to agree are listed in the concluding section of this brief).

c. to demonstrate that the Government is not rigidly doctrinaire in its policies, and to leave the way open for further discussions of this sort;

d. to direct attention beyond the immediate future to the more fundamental adjustments we must expect in a fast changing world, and to what needs to be done to lay the foundations for sustained non inflationary expansion of the economy.

It may not be possible to achieve all of these objectives. The TUC in particular, in their memorandum, remain uncompromising in their criticism of the Government's economic policy, though they offer no coherent alternative approach. On the other hand, the signs are that both the TUC and the CBI want the meeting to be a "success", if only in the sense of showing that the Council can tackle major macroeconomic issues in a way that neither means a dialogue of the deaf, nor simply results in generating clashes with a further hardening of positions.

#### HANDLING OF THE DISCUSSION

2. It would probably be desirable if, in his opening remarks, the Chancellor made some <sup>now</sup> suggestion about/ the discussion might be structured. This cannot be laid down too rigidly in advance, but one possibility would be as follows:

a. short introductions to the memoranda by each of the parties, drawing out the main issues on which the Council is invited to focus;

b. substantive discussion grouped around the following main headings:

- the short term: outlook, objectives and policy instruments.

(i) inflation and pay bargaining; (ii) company liquidity and profitability;  
(iii) employment and output.

- medium term objectives: laying the foundations for sustained non-inflationary expansion, through action to improve the supply side of the economy.



NEDO Paper: (NEDC(79)63)

3. Following a brief description of economic developments in 1978, the paper compares the projections of the more important independent forecasts (plus the Industry Act forecast) up to the end of 1980. There is then a comparison of the projections up to 1982. (See also brief no 10 ).

4. Over the short term, the various projections show very similar results. Broadly, the picture is one of a set back to demand and output, with some decline in GDP; nil productivity growth; and, allowing for lags, a rise in unemployment to 1.5 million by the end of 1980. [The Industry Act forecast did not of course contain an unemployment figure] The forecasts foresee inflation peaking in the range 16-20% in the first half of 1980, and falling thereafter to an annual figure in the range 14-18%. The projections for earnings growth are in the range 14-16%. All groups expect a fall in company profits and in investment. Most predict at least some improvement in the current account deficit over 1979 levels.

5. Over the medium term, however, differences in the modelling of certain key relationships (see paragraph 15 of the Memorandum) result in clearly divergent paths for inflation, future growth and unemployment. Perhaps the most important relationship is that concerning the impact of monetary and fiscal restraint on wages and prices. Most groups see unemployment as a main link in the chain between monetary restraint and moderation on pay, but they differ about the level and duration of employment needed. The Liverpool ("rational expectations") model leads to a rapid cut in inflation, with an early resumption of growth. The LBS forecast is also fairly optimistic; output and investment recover as inflation falls steadily from mid 1980, so that growth by 1982 is 3% and inflation below 8%. At the other extreme the CEPG, who suggest that unemployment may have no effect on wage claims, forecast a permanent stagnation in output, with inflation continuing in the 15-20% range throughout the next decade. However, all the forecasting groups accept the need to cut inflation, and nearly all accept that monetary restraint is a necessary condition for achieving this.

6. Another source of divergence concerns the relationship between the exchange rate, the trade balance and output. At one extreme LBS, whilst predicting a current deficit of over £2 million in 1982, do not regard the current balance as an important policy target because of the extended scope for capital flows to offset a current account deficit following the abolition of exchange controls. At the other extreme is the well known

CBI view that the current account balance is a severe constraint on employment, for which the prescribed remedy is general - as distinct from selective - import controls for all countries having higher than average propensities to import, together with expansion in domestic demand.

The CBI Paper: (NEDC(79)64)

7. This paper firmly restates the CBI's views that defeat of inflation must have first priority; rules out any major reflation until inflation is well under control; and reaffirms the need to improve industrial competitiveness in the widest sense. It discusses the implications of the gloomy short term economic prospects for the company sector, and singles out pay bargaining as the most important factor determining the prospects for inflation and industrial competitiveness in the short term.

8. The paper paints a sombre picture of the outlook for the company sector in the coming months. (See also brief no 2) The tightening squeeze on company finance will lead to an increasing financial deficit and deteriorating liquidity. The result will be cutbacks in investment and employment, and more bankruptcies. At the same time, rising unit labour costs and low productivity have caused the cost competitiveness of UK industry to decline markedly in recent years, and the recent strength of the pound has made it harder to arrest this trend. The paper calls on companies to spell out clearly the facts about industry's financial problems, and points out that the delay in the introduction of current cost accounting has made this task more difficult.

[This delay is due to the prolonged consultations which the accountancy bodies are having with interested parties; the Government is not directly involved though would welcome speedy progress.]

9. The emphasis placed by the CBI on the defeat of inflation accords with the Government's own priorities, and the statement that there can be no question of a major stimulus to domestic demand from expansionary fiscal and monetary policies until inflation is under control is a helpful counter to the TUC. The CBI also welcome the tight monetary and fiscal stance, though they suggest, rather vaguely, that it is "somewhat more restrictive" than they recommended. They bring out clearly the need for realistic pay settlements if the process of squeezing inflation is not to result in an unnecessarily high cost in terms of transitional loss of output and increase in unemployment.

10. The CBI express disappointment that the Government is not doing more to influence pay expectations to make the public more aware of the limited economic choices facing the country, and the paper refers specifically to the CBI proposals for reform of pay determinations. It will be recalled that these proposals were:



- a. to influence pay expectations through monetary and fiscal policies
- b. to establish a National Economic Forum as a scene setting mechanism for pay bargaining
- c. to ensure that comparability, where used, is accurate and valid
- d. to improve and rationalise pay bargaining structures
- e. to compress the pay bargaining round, and put public sector settlements at the end of it

The Government's position on (a) - (c) is clear. [See also brief no 5 on Economic Forum] (d) is a matter for individual employers, whilst (e), as the CBI recognise, is a long term objective and not susceptible to short term treatment. The Chancellor will also wish to point out that he and his colleagues in economic Departments have repeatedly done all they could to spell out economic realities in recent statements and speeches. [See also brief no 3]

11. The paper ends with an appeal to all parties to do something together to bring sense into the pay bargaining climate, with a specific invitation to the TUC to help. This is an appeal which the Chancellor will no doubt invite the Council to consider and respond to during the course of the discussion.

TUC Paper: (NEDC(79)66)

12. This paper contains a bald and uncompromising restatement by the TUC of their well known criticisms of the Government's economic policy. The gist of their arguments is that reliance on monetary control and restraint of public expenditure will have a deflationary impact on demand, with adverse consequences for output and employment; that this in turn will require further monetary and fiscal restraint; and that the Government is therefore steering the economy downhill into an economic cul-de-sac. The paper does indicate a willingness by the TUC to engage in "a constructive dialogue with the Government on the whole range of economic issues", but only if there is a change in Government policy.

13. There are some notable omissions from the paper. Most important, perhaps, is the absence of any recognition by the TUC of the need to curb inflation, or of any suggested alternative set of policies for achieving this and avoiding the fall in economic activity about which they express so much concern. There is scant discussion about pay, and no acknowledgement of the crucial role that moderation in pay demand will have in determining the eventual outcome for the company sector, investment and jobs. The paper asserts that it is prices which are pushing up wages, but totally ignores the reverse relationship - for example, the fact, as the CBI paper notes, <sup>that</sup> pay went up by at least 14% per annum over the last two years, whilst output remained flat. Again, there is no recognition of the link between inflation, and the loss of business confidence and the fall in manufacturing investment.

14. There is also a somewhat curious reference (paragraph 18) to the Government's alleged belief that an increase in VAT will not increase inflation. However, the increase in VAT rates in the June Budget was part of a move to transfer some of the burden of taxation from direct to indirect taxes - an aim supported by all three political parties. The new tax and prices index shows the overall effect, taking account of the reductions in direct tax. The once for all nature of the VAT increase means that it should not result in an increase in the underlying rate of inflation.

15. A second major omission in the paper is the absence of any discussion about constraints on the supply side of the economy, notably our record of low or nil productivity growth. There is, interestingly, no explicit reference to selective import controls. Equally, however, the paper fails to recognise that, as amply demonstrated by recent UK experience, the problem facing the UK economy is not one of inadequate demand but of supply side weaknesses, and that productivity growth - and not increased public spending - is the key to sustained non-inflationary economic expansion.

16. The paper does not acknowledge the extent to which, on a number of issues, the TUC have recently made statements indicating thinking fairly close to the Government's own position. These include:

Monetary Policy: "Monetary factors cannot be ignored and the Government does have to ensure that the public sector demand for finance does not prevent industrial investment or dislocate financial markets" (TUC Economic Review 1979);

Importance of Controlling Inflation: "..... further and interrelated conditions for [emphasis not in original] successful expansion are progress in reducing inflation and the Government being able successfully to finance the PSBR" (TUC Economic Review 1979)



Public Expenditure and Taxation etc: "We must find a way of reaching agreement on how to get the right balance and the use of resources between our productive industries and the public services, and how we get agreement on priorities in public spending. We need to think through the roles of direct and indirect taxation and the taxation of wealth. While we reject the Government's attack on the nationalised industries, there are problems in that area, such as the right basis for financing them and pricing policy and the role of subsidies" (Speech by Mr Murray, 10 November 1979)

It would be probably be tactically unwise to quote the above verbatim at the TUC, especially as the statements in the 1979 Economic Review were made in the context of the demands for measures to expand the economy. Nevertheless, it may be possible to steer the TUC back to some of these points during the discussion.

17. Other specific points in the TUC paper to note are:

- a. criticisms (linked to the abolition of exchange control) that the benefits of North Sea oil are being permitted to go abroad and not into domestic investment (see briefs no 8 and 15 ).
- b. a categoric statement that there is no basis on which trade union members could now serve on the reconstituted board of the NEB (Sir Keith Joseph will handle this point, but see also brief no 6)
- c. references to TUC proposals to the Wilson Committee for a new financing facility involving the Government and the Pension and Life Insurance Funds (see brief no 13 ).

Although there is no mention of this in their paper, the TUC will probably also be critical about the suspension of the worker participation scheme in the Post Office. The Secretaries of State for Industry and Employment will be ready to respond on this.

The Chancellor's Paper: (NEDC(79)65)

18. The Chancellor is already familiar with this, and a speaking note for introducing the paper is attached. (Annex B).

## SUMMING UP

19. This will need to be tailored to the discussion, but we believe that all of the parties want the meeting to end on a positive note, even though total accord cannot be expected. The Chancellor will therefore want to highlight the areas of agreement, to acknowledge frankly points on which the parties disagree and - assuming the discussion has gone well - to refer to the possibility of further discussions in the Council before too long. The summing up will also provide a steer for the Director General when briefing the press after the meeting.

### Areas of Agreement

(these take account of the various TUC statements shown in paragraph 16 above).

- i. forecasters are agreed on the difficult short term economic prospects, and their views are accepted by the CBI, the TUC and Government in their papers. In particular, there is agreement on the serious prospects for the company sector and on import penetration.
- ii. all parties are agreed on the damage caused by high rates of inflation and the necessity of reducing it. The CBI in their paper agree with the Government that a substantial reduction in the rate of inflation is a precondition for economic growth.
- iii. there is agreement that control of the money supply is necessary to the defeat of inflation. There is also agreement that statutory pay policies, pay norms, pay sanctions, etc are not a satisfactory way of dealing with inflation.
- iv. the Government recognise that monetarism is not enough. They agree with the TUC and CBI on the need to improve the performance and adaptability of industry in order to achieve growth. The Council has already had useful discussions of productivity, trade performance, etc. The Prime Minister will be taking the chair in January at a meeting to discuss technological change and related issues.

### The Differences of View

- v. the Government (and the CBI) differ from the TUC about the precise fiscal stance which is appropriate in current circumstances. The TUC believe that a more expansionary policy would raise output, but the Government consider that this would fuel inflation and benefit imports rather than domestic production (eg experience in 1978). However, although the parties disagree on the precise



level of public expenditure, all are agreed that the allocation of resources between the public and private sectors must accommodate the needs of private industry and the legitimate aspirations of consumers.

vi. there are differences in view about the influence of pay settlements on inflation. The TUC say that price increases, including the effects of the higher rate of VAT, are the main factor, whereas the CBI give much more weight to the level of pay settlements. The Government believe that money supply is at the heart of inflation, but that the level of pay settlements is a very important element in the situation.

#### The Way ahead

If the meeting has proceeded satisfactorily, the Chancellor will probably wish to suggest a further discussion in a few months time. [Just after the Budget would probably be the most suitable time]

#### OTHER BUSINESS

20. The Chancellor should seek approval for all papers to be released after the meeting.
21. The next meeting of the Council will be on Wednesday 9 January, at 3pm.

IP Division  
HM Treasury  
30 November 1979

CONFIDENTIAL

NEDC: 5 DECEMBER

Background BriefsBrief Number

- The case against reflation	1
- Company liquidity	2
- Pay Policy (including Government publicity, & recent settlements)	3
- Import Controls/Alternative Strategy	4
- National Economic Forum	5
- National Enterprise Board	6
- The World Economy and the Rise in Oil Prices	7
- Exchange Control	8
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- Prospects for the Medium Term	11
- Prospects for Further Tax Cuts	12
- TUC Financing Facility	13
- Small Firms	14
- The Use of North Sea Oil	15



## 1 REFLATION

Factual

The TUC annual Economic Review, published last February, argued for a fiscal stimulus accompanied by import controls. The Cambridge Economic Policy Group's report last spring did likewise. Its Director, Mr Wynne Godley, however, has lately appeared to be ready to rely on import controls without the fiscal stimulus. He wrote for Vickers da Costa after the June Budget: "I am not arguing in favour of a fiscal expansion and Sir Geoffrey (Howe) is quite right to say that the effect of this would be perverse". Various backbench members of the Labour Party - notably the Labour Co-ordinating Committee - have also argued for higher public spending, lower taxes and import controls.

Defensive

Reflation now through more relaxed fiscal and monetary policies would be likely to lead to higher inflation and a deteriorating balance of payments or depreciating exchange rate. There is no guarantee that it would lead in the long-run to higher output or employment. The economy has suffered from deficient supply rather than inadequate demand.

Positive

The Government's overriding priority is to reduce inflation but it of course shares the aims of those who want to see an increase in output and employment. It believes that this can best be achieved by creating conditions in which enterprise can flourish and markets work flexibly. Its tax policies are directed towards encouraging, assisting and rewarding skill and success.

## COMPANY LIQUIDITY

Background

There is clearly a difficult short term outlook for the company sector. The share of profits in total incomes is already exceptionally low (about 6% for non-oil companies) and has recently been adversely affected by the continued rise in labour costs and fall in activity. The cushion of liquidity built up by companies in 1977 and 1978 has been severely depleted. The financial deficit of non North Sea companies is unlikely to be as high as a proportion of GDP as it was in 1974 (4½%) but could come close to it over the 12 months to mid 1980. Difficult trading conditions are likely to continue next year reflecting weak demand at home and abroad. But the pressure on companies will be eased somewhat in the course of 1980 as they cut back on stockbuilding and investment. Such cutbacks, which are to some extent a response to financial pressure and a tight monetary situation, will contribute to the expected fall in the level of economic activity. Both the immediate outlook for the sector and the prospects for future years depend crucially on future pay bargains.

Positive

1. Our first objective must be to bring down the rate of inflation. This is crucial to create the right conditions for investment and future growth. To relax our monetary policy would risk a surge in inflation which would be much more damaging to output and employment than tight monetary conditions.
2. The CBI recognised the 15 November package as a necessary part of the Government's determination to bring money supply and hence inflation under control.
3. The impact of tight monetary policies depends on how both sides of industry respond. If pay bargains are reasonable, inflation will come down faster and any substantial loss of output and jobs will be avoided.

Defensive

1. Future interest rates depend crucially on progress in reducing monetary growth and inflation.



-2-

2. Providing pay bargains are reasonable, there should be room within the monetary target and SSD scheme guidelines for necessary industrial finance.

3. Interest rates, of themselves, are not an important determinant of investment. The prospects for the economy generally are much more important.

4. There are objections of practice and principle to schemes of two-tier rates, sheltered finance for industry, etc. No sector of the economy can be wholly isolated from the effects of high interest rates; that would only undermine our policies.

5. Small firms face other difficulties, and we are looking at which might be done to relieve this.

6. We accept that "monetarism is not enough". Productivity needs to be improved as one element of a programme to improve the supply side of the economy. The Chancellor's paper considers progress on this and the further steps which parties represented on the Council can take.

## 4 IMPORT CONTROLS

Factual

This brief considers the case for and against general import controls. It should be borne in mind that the TUC itself, in its 1979 Economic Review, now advocates only temporary and selective import controls in cases where domestic industrial policies would be deemed insufficient to contain import penetration within limits set by SWPs.

The case for general import controls is most cogently advanced by the Cambridge Economic Policy Group and its Director, Mr Wynne Godley. In the context of managed trade for the world as a whole, the case is based on the view that the adverse trends in British trade performance are such that, unless general import controls are imposed, the only way of maintaining current account balance in the future will be progressively to deflate the economy. General import controls would reduce the propensity to import below what it would otherwise have been and could thus be expected to raise domestic demand. But this higher level of domestic demand would probably mean that the overall level of imports would be unaffected. The faster rate of growth of output would, it is argued, raise investment and productivity growth and so strengthen the industrial base.

On the other hand, general import controls would:-

- i. lessen the need for improved industrial efficiency rather than help to improve industry's long-term competitiveness;
- ii. risk emulation and retaliation by our trading partners in depressed world trading conditions with the result that no country would gain in the long run from protection;



- iii. be likely to increase inflation and reduce welfare by restricting the range of consumer choice.

It is for these reasons that the Government is against general import controls as the solution to the UK's economic problems.

#### Defensive

The Government firmly believes that general import controls are not the answer to our problems, for three reasons:-

- i. they would be more likely to foster inefficiency than improve our competitiveness. Insulating ourselves from international competition is no solution. Besides, all the evidence shows that output does not respond to increases in domestic demand.
- ii. unilateral import controls by the UK would be a breach of our international obligations under GATT and the Treaty of Rome. Retaliation or emulation by other countries would have to be expected and would tend to reduce any potential benefits. The political and economic damage to the UK could be significant.

Finally, any measure which would expand domestic demand in present circumstances would worsen inflation. And it is inflation, not the balance of payments, which is the primary constraint on expansion. The faster rate of inflation, reinforced by the switch to higher cost home-produced goods and by the effect on efficiency, would be likely to frustrate the growth of output long before the hoped-for benefits of higher productivity growth came through.

#### Positive

While the Government is firmly opposed to general import controls, we do see a role for intervention where there is a clear case of unfair competition from abroad. Thus we will oppose anti-competitive and restrictive practices by other countries and give strong support to British firms in pursuing genuine cases of dumping and other unfair practices.

## NATIONAL ECONOMIC FORUM

Background

Ministers (E. Committee) have decided for the moment not to pursue the idea of a separate national economic forum, but instead to build in a modest way on the existing NEDC. You and the Prime Minister have said in the House that the Government is thinking along these lines. An important factor in reaching this decision was Mr Murray's advice that the TUC would not want to be seen cooperating with the Government in some new forum - implicitly, if not explicitly, concerned with pay - whereas general economic discussions as part of the regular business of the NEDC would be acceptable. The CBI (and certain other bodies such as the BIM) favour the forum concept, but seem willing to see first what can be achieved in the NEDC and by other means.

The idea of the forum has not been ruled out for the longer term but it is never likely to be the answer. The present approach is to use all available means to promote a wider and more informed discussion aimed at getting a better understanding of economic realities by all available means. In your interview with Mr Walden you said that, whilst a new forum might only create false expectations at this stage, the Government would be ready to look at the possible ways in which various institutions might be developed. However you cautioned against trying to push matters too fast or too far, which might only jeopardise the progress which was already being made.

Line to Take

The Government wish to promote a more open and informed discussion of economic matters by all available means. The discussion we are having today shows that the NEDC itself has an important role in this process. We do not want to close any options, but it would be premature to start talking about some new forum until we all have a clearer idea about what can be achieved in discussions of this sort.



Paragraph 16 of the TUC paper is critical about the Government's policy for the NEB as embodied in the Industry Bill; and the recent events culminating in the resignation of the Board. The Chancellor will wish to let Sir Keith Joseph deal with any discussion about these issues.

#### BACKGROUND

2. The Industry Bill provides for a reduced role for the NEB; for the power to dispose of its assets; and for the ownership of NEB companies to be transferred to DOI at the discretion of the Secretary of State. The decision that Rolls Royce will be transferred to DOI led to the resignation of the Board.

#### DEFENSIVE

3. The Government regret the resignations. Sir Keith has already paid tribute to the way in which the business and trades union members of the Board had worked well together. The decision to transfer ownership of Rolls Royce did not imply lack of confidence in the Board. It reflected the inherent conflict in having the Board of a company of the scale of Rolls Royce supervised by another Board however eminent. While there are obvious similarities for BL that case is not quite on all fours.

4. There is no denying that the Industry Bill will give the NEB a more limited role. This reflects this Government's view that a general merchant banking role is inappropriate for a public sector organisation insulated from commercial discipline. The NEB will be required to dispose of its holdings as they return to viability and private finance can be introduced.

5. Supporting industries in decline is inconsistent with the approach of freeing resources to enable new industries and jobs to flourish. As the Chancellor's paper says, the pattern of this change will spring from trends in consumer demands and technological change at home and overseas. Companies with a viable future should be able to arrange funds to see them through temporary difficulties. The last Government's financial plans for the NEB would not have allowed intervention, however temporary, on any significant scale.

#### POSITIVE

6. The Government recognise the long term importance of the high technology sector. They have decided that the NEB should have a limited role in investing in high technology companies where private sector finance has been discouraged in the past when reward has not been commensurate with risk. Investments in the computer peripheral and software sectors and office systems are cases in point. [The future of INMOS, the NEB's microelectronics subsidiary, has yet to be resolved so Ministers will not wish to refer to this.] The NEB has also been assigned a small firms/regional role to invest in companies in the English assisted areas where private sector finance is not immediately available.

## 7 WORLD ECONOMY

## I INDUSTRIALISED COUNTRIES' RESPONSE TO HIGHER OIL PRICES

(a) Background

Industrial countries have responded to higher oil prices in a much more uniform way than in 1974-75. A number of countries argued then that, to the extent that the rise in oil prices did not generate increased imports by OPEC, it was much the same as an increase in taxation. So the correct response was to reduce taxes to offset the inflationary impact and sustain growth and employment. But experience showed that attempting to protect domestic activity by fiscal and monetary relaxation allowed inflation to be accommodated and this was ultimately more damaging to growth and investment. Those countries which recovered fastest from the increase in oil prices were those which resisted the inflationary impact - eg Germany, Japan, and the US; while the UK, Italy and France, which tried to sustain output, experienced rapid inflation, severe balance of payments problems and a declining exchange rate.

The priority given to the need to resist inflation has been reaffirmed at numerous international meetings. For example, the communique of the Interim Committee in Belgrade said "The Committee emphasised that the main task of economic policy was to contain inflationary pressure and to reduce inflationary expectations. One of the immediate problems was to prevent the recent surge of price increases for oil and other primary products from adding to the strength of inflationary expectations and thus being built into underlying rates of increases of wages and prices."

(b) Speaking NotesPositive

Policy responses to the increase in oil prices have been encouragingly uniform. We have learnt from our mistakes. After the 1973-74 oil shock we and some other countries thought we could cushion the impact by relaxing policy. We ended up with a level of inflation which destroyed more jobs than the attempt



to sustain activity had preserved. Those countries which resisted inflation recovered more quickly.

### Defensive

Inflation in the major countries is still accelerating. Oil prices are set to rise further. In most countries the policy options are extremely limited. We know from experience in 1974-75 that, unless we contain inflation, output and employment will be seriously hit. This does not amount to competitive deflation. It is instead a recognition that short term palliatives carry heavy long term costs.

## II THE EFFECT OF HIGHER OIL PRICES IN THE UK

### (a) Background

The UK's status as an oil producer does not insulate it from the adverse effects of higher oil prices. First, we are not completely self-sufficient: we must still import oil. Second, while inflation might be moderated because the exchange rate is higher than it would otherwise have been, this implies a further deterioration in competitiveness. This adds to the effect of slower growth in export markets, caused by the downturn in world activity, and means a loss of output in the UK potentially at least as large as the average for industrial countries.

Additionally, the rise in oil prices makes the conduct of monetary policy more difficult (referred to in paragraph 7 of the Government paper):

- i. higher inflationary pressure increases the strains within any given target for money supply growth;
- ii. the increased OPEC surplus generates more erratic capital flows. Exchange rates are differentially affected according to whether a country is relatively favoured vis a vis the supply and price of oil (eg the UK) or relatively disadvantaged (eg Japan);

- iii. increased inflationary expectations can lead consumers and businesses to try and pre-empt anticipated price increases by borrowing more and bringing purchases forward.

(b) Speaking Notes

Positive

The North Sea does not immunise us against higher oil prices. Exports and output suffer from the slower growth of world trade. And stronger inflationary pressures produce distortions in the economy and make the conduct of economic policy more difficult.

Defensive

It may be true that because of North Sea oil and its effect on the exchange rate the impact of dearer oil on inflation is less pronounced in the UK than elsewhere. But we cannot insulate ourselves from the slower growth of our export markets. And it becomes more than ever necessary to improve competitiveness through higher productivity.



## 8 EXCHANGE CONTROL

Background

All remaining exchange controls (except in relation to Rhodesia) were abolished on 24 October. TUC leaders criticised this move for a few days but have not raised it directly with the Chancellor.

Positive

Removing controls eliminates costs and distortions on investment decisions and allows investors to look for the most profitable opportunities. Balance of payments will be strengthened as returns flow in - particularly useful when North Sea oil declines.

DefensiveOverseas investment

Government are not encouraging overseas investment at the expense of domestic investment but have removed artificial distortions against overseas investment. Evidence of surveys (including NEDC 1977-78 survey accepted by Mr Healey in 9 November Financial Weekly article) is that overseas direct investment is a necessary part of successful export performance, not a substitute for it. The problem with domestic investment is a lack of profits, not funds (vide evidence to Wilson Committee) - answer is policies to improve profitability.

Monetary policy

Abolition of exchange control does not significantly affect our ability to meet monetary objectives. It does affect the usefulness of some supplementary forms of monetary control (eg SSD) - but these are not substitutes for main methods of control, ie interest rates and PSBR. Net effect on money supply likely to be small when inflows and outflows are both taken into account.

## THE EXCHANGE RATE

Factual

(i) The exchange rate is primarily determined by market forces. The authorities intervene in the exchange markets to moderate excessive fluctuations in the rate.

(ii) Many factors affect the rate. This year's current deficit is tending to push the rate down. Similarly, on the capital account, the abolition of exchange control is tending to increase the demand for foreign currency and exerting further downward pressure. But this is more than offset by the flow of funds into sterling, reflecting the high level of UK interest rates and our position as an oil producer. I would not like to predict what the net effect on the exchange rate will be.

Positive

(i) British industry should over time become more competitive as a result of the abolition of exchange control, since the rate is likely to be lower than it would otherwise have been. <sup>The</sup> manufacturing sector will no longer have to take the full force of the adjustment of the balance of payments to increasing North Sea oil production.

Defensive

(i) A stable exchange rate is not an objective of Government policy. The rate is set primarily by the markets. But there is no reason to assume that sterling will be more volatile following the abolition of exchange controls. Our firm commitment to strict fiscal and monetary policies should ensure the pound's underlying strength.

(ii) We do not need to run a current surplus in order to maintain a stable exchange rate. Movements on capital account are also important. But the stable exchange rate projected in the Industry Act forecast was a conventional assumption and implies nothing about future Government policy.



(iii) MLR was raised purely on domestic grounds in order to tighten monetary control. It is no part of the Government's policy to use high interest rates to attract OPEC funds to Britain in order to bolster the exchange rate. The exchange rate adjusts to the Government's monetary stance, not the reverse.

(iv) I am making no predictions about the future course of the rate.

## 10 SHORT TERM FORECASTS

Factual

- i. Industry Act forecast published 22 November. Main features:
  - fall of 2% in GDP between 1979 and 1980
  - decline in inflation rate to 14% by end 1980
  - decline in deficit on current account by £2 bn in 1980
  - PSBR in 1980-81: "little change as a percentage of GDP on 1979-80".
- ii. London Business School forecast published in S. Times, November 25, main features: fall of 1% in GDP in 1980; price forecast similar to Industry Act; current account deficit of £½ bn in 1980; PSBR of £11 bn in 1980-81.
- iii. National Institute forecast, published 3 December (NB CONFIDENTIAL until Monday 3 December) main features: no change in output in 1980; prices a little higher than in the Industry Act forecast; current account deficit of £ 3bn in 1980, PSBR £9 bn in 1980-81.
- iv. Number of other forecasts summarised in NEDO paper are generally not very different from these three.

Positive

- i. Most forecasts show some decline in rate of inflation before the end of next year;
- ii. There is general acceptance of desirability, practicality and likelihood of tight control over money supply next year; this is of course a necessary condition for controlling inflation.

Defensive

- i. The range of forecasts, for example, on the extent of recession next year, gives some idea of margin of uncertainty.
- ii. The Government's policies of restricting public sector activities, increasing incentives, and keeping tight control of money supply, were never expected to produce rapid results. The benefits will begin sooner, the earlier domestic cost increases - above all wage bargains - are moderated.



## 11 ECONOMIC PROSPECTS IN THE MEDIUM TERM

Background

There have been a number of economic forecasts covering the medium term. These have been widely reported in the press: the majority are pessimistic on prospects for growth. An article in the Times of 26 November (copy attached) purported to give details of recent Treasury projections of the medium term.

Defensive

It is difficult enough to predict short term developments in the economy with a tolerable degree of accuracy. Any projections of medium term developments are subject to very wide margins of error and have a strictly limited usefulness in discussions on economic policy.

Nevertheless the behaviour of the economy in recent years has shown certain deep-seated weaknesses that have persisted over a number of years - examples are low productivity growth, poor trading performance, and a tendency to high inflation.

Our policies are designed to remove the causes of these weaknesses such as poor incentives, excessive state intervention in the economy, and lax fiscal and monetary policies. Government, however, can only create the conditions for better performance. Economic prospects in the medium term ultimately depend on the extent to which individuals and companies make full use of the opportunities created by our new policies.

Positive

History is dotted with the wreckage of over-ambitious economic plans based on over-optimistic growth assumptions. The government intends to be realistic and so is making no promises. It is nevertheless confident that its policies can create the right background against which economic growth can resume.

## 12 PROSPECTS FOR FURTHER TAX CUTS

Factual

## The 1979 Finance Act

- reduced the basic rate of income tax by 3p in the pound from 33 to 30p
- raised the thresholds by twice the amount needed to make up for inflation, ie by £280 for a married couple
- cut the top rate of tax on earned income from 83 per cent to 60 per cent, bringing it into line with the European average
- raised the starting point for higher rate taxes from £8,000 to £10,000 and widened the upper rate bands.

The cost of these reductions in direct tax in a full year was £4,300 m.

DefensiveIncome tax (including lower paid)

We have already made the biggest income tax reductions of all time. However, it has been made clear we want to do more over the years, particularly in three areas:

- i. widening the gap between those at work and those drawing social security benefits. Tax is still being collected at levels which are harsh, unjust and discouraging;
- ii. raising the thresholds;
- iii. reducing the basic rate.

Why priority for capital tax changes?

We have made a start on income tax, but I promised a review of capital taxes and action is needed here also. Capital tax reform required because overall burden is too heavy and the present haphazard accumulation of taxes too complicated. Excessive capital taxation discourages the building up of capital by risk takers, on whom much of our future success depends. But not able to make any precise commitments for 1980 Budget.



### Small businesses

Reductions in income tax and eventual restructuring of capital taxes are what small businesses need most of all. But further specific tax measures to assist small firms are not ruled out.

### Company tax

Main aim here is to improve profitability. Difficulties sometimes caused because of overriding need to keep money supply under control.

Review is in hand on how best to take account of price changes in company taxation. Complicated issues here, which call for consultation in due course. At the same time stability in corporate taxation is important.

### Positive

Aim is to get taxation down to a level where it can be collected from the mass of the people with their broad consent. Will continue on this course, but wrong to have over-generous expectations for 1980.

Further reductions in the tax burden will depend on progress in the attack on inflation. Overriding need at present to keep Government borrowing consistent with firm control of money supply. Tax cuts must not endanger that.

Firm control of the volume of public spending and through cash limits, on cash disbursements is vital if a need for tax increases is to be avoided.

## TUC FINANCING FACILITY

(Referred to in para 18 of TUC Memorandum, NEDC(79)66)

The Proposal

In a memorandum in May 1977 to Sir Harold Wilson's Committee on the Functioning of Financial Institutions, the TUC advocated an arrangement under which some part of the inflow of new funds to the long-term savings institutions would be set aside to finance new productive investment in manufacturing industry. There would be a public sector contribution financed by North Sea oil revenues and a new savings medium for the public. The TUC suggested a facility of £1 billion a year. The purpose would be the finance "projects and companies which would not qualify under present arrangements but which when taken in aggregate could provide an adequate rate of return in the long run."

2. The principal objections to the scheme are that:-

(i) funds, at the going market price, are not scarce for industrial investment (that is, investment is not being 'crowded out' simply in terms of availability of cash);

(ii) a facility of this sort would not be a source of cheaper funds for industry unless the institutions were constrained to lend below the market price (or there was a Government subsidy) in which case it would represent a tax on the institutions (or an increase in public expenditure);

(iii) direction of funds in this manner is contrary to the Government's view that so far as possible the market should be allowed to allocate resources.

Line to take

3. If the point is raised, the Chancellor might say that he sees no advantage in a scheme of this sort. It would not produce additional funds, or cheaper funds. It is no substitute for the Government's wider policies designed to bring down interest rates and the PSER. It is these policies which will, in the longer-term, produce the effects which the TUC wants not short-term palliatives of the sort described here.



## SMA FIRMS AND EMPLOYMENT

Background

Paragraph 10 of the Chancellor's Memorandum - NEDC(79)65 - refers to small firms as an important source of new jobs. The studies referred to are:

- a. "The Job Generation Process", by David L Birch, published 1979 by MIT;
- b. "Entrepreneurship, New Firm Formation and Regional Policy: The Case of Cleveland County " by David Storey of the Centre for Environmental Studies (1979).

2. The MIT study is based on a survey of establishments covering 82% of US private sector employment. Of net new jobs (ie subtracting job losses) in the private sector in the US, 66% were created by firms with 20 or fewer employees. The Cleveland study is based on a comprehensive list of manufacturing establishments (not firms) existing in 1965. Among these establishments, only the group of those with under 50 workers made a net gain. All other groups (classified by size of establishment) showed net losses. These data exclude new establishments founded since 1965, but include closures of establishments. They are thus on a different basis from that of the US Study. A Department of Employment survey of private sector establishments existing in June 1975 shows that net employment rose in those with under 25 workers, and fell in the rest, between then and June 1978.

3. The January NEDC will discuss employment trends, including the role of small firms. The Secretary of State for Employment's paper for that meeting will refer to some data on small firms, including the US study above.

## LINE TO TAKE

Positive

4. The US study has been subjected to close scrutiny; no reason to doubt its findings has yet emerged. Similar results have been found in Canada and Japan. The UK studies are more modest, but point in a similar direction.

5. In the Cleveland study, the net gain of small establishments was wiped out 35 times over by losses in big establishments; but all the studies suggest, nevertheless, that small and in particular new firms in new industries offer more hope of employment increase.

than large firms. The detailed policy implications may be unclear, but the need for a higher rate of new-firm formation in the UK is clear. No differences between the UK and the US small-firms sectors nullify that conclusion.



Background

The TUC argue that the Government should channel the resources from the North Sea oil into industrial investment, and complain that North Sea oil profits are being invested abroad.

The previous Government produced a White Paper on the challenge of North Sea oil in which they stated that "a large part of the new resources and extra revenues must be consciously identified and allocated to the kind of long-term investment which we have not been able to afford in the past ..... so that when the oil runs out our industrial base is stronger than it was before". However, the White paper rejected suggestions for a separate "North Sea oil fund" for industrial projects as artificial and impracticable.

Line to take

1. North Sea oil revenues form part of the Government's total income and it makes no sense to make separate plans for their allocation distinct from the Government's expenditure priorities as a whole. Without North Sea oil, the economy would be in an even worse state now than it is. However, the Government rejects the view that the road to our economic recovery lies with ever-increasing Government spending on industrial subsidies and aids, and this is what the TUC proposal implied. Companies and private investors are generally a better judge of what are good investment opportunities. Inadequate industrial investment is a reflection of low profitability and other aspects of poor industrial performance and not of shortage of finance.
2. The TUC allege that North Sea profits are being invested abroad. The greater part of profits from exploitation of the North Sea accrue to the Government. The remainder constitute the return to the oil companies on their investment and they are free to invest them in the most profitable ventures they can find whether at home or abroad. It is in the long-term national interest that the proceeds from North Sea oil should be put to the most profitable use - in many cases this will be in the development of new oil and other energy sources. Without the prospect of profits, there would be no exploitation of the North Sea and no benefit to the nation.

SPEAKING NOTE ON THE CHANCELLOR'S PAPER

There is pretty wide agreement on the shape of developments over the next twelve months or so: inflation expected to moderate, though more slowly than any of us would have wished, some fall in output and a rise in unemployment. Within this overall picture there is expected to be considerable pressure on companies' finances.

2. My paper attempts to go beyond the outlook, whose depressing nature must not be allowed to persuade us that there is no way of breaking from the vicious circle in which we have been trapped so as to achieve sustainable non-inflationary growth. Some sectors and companies have shown us what is possible and we must have an improvement in the performance of others. The choice of policies available to / <sup>encourage</sup> this is heavily constrained by the world picture and the historical legacy of the poor performance of the economy in aggregate. But the government believe that their approach offers our best chance of success.

3. Our first objective, like that of other industrialised countries, is a reduction in inflation. Without this, industrial and consumer confidence will remain low and any attempt to pursue an expansionary policy would tend to lead to higher inflation and a worsening balance of payments, with no long run benefit to output or employment. North Sea oil is benefiting us greatly in many respects but it cannot cut at the roots of our economic problem: our poor overall industrial performance and inadequate returns to investment. The answer to that lies in improved productivity and my paper mentions

/the



the steps that have already been taken to improve the "supply side" of the economy. As the Council has recognised, there remains a lot of scope for further action at all levels.

4. The policies being followed in pursuit of these twin objectives do in many respects reflect a common understanding about what is feasible and right. For example I think all parties on the Council have in the past acknowledged the necessity to get inflation down as a condition for sustainable growth, that an institutionalised pay policy is no answer, that the right monetary policy is important, and that a proper balance of resources is needed between productive industry and public services. These are the main things we have to get right as the framework within which policies to improve the supply side can bear fruit. There is of course quite legitimate disagreement over certain aspects of policy - on public spending priorities, detailed tax measures and so on but on the fundamentals of the government's approach there is not a great deal of room for argument. No real alternatives exist.

5. The various economic forecasts before us today show that the adjustment process that we face in moving to a sounder economic framework will be a painful one, with the prospects for jobs and the company sector and the rate at which inflation comes down depending heavily on the level of pay settlements. But the government believes that these costs of adjustment are outweighed by the gains which will flow from opening up the prospect for economic growth and greater prosperity.

CONFIDENTIAL

Econ Pl



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

27 November, 1979

Dear Sir,

R  
27/11

PREPARATIONS FOR DECEMBER NEDC

I am circulating separately today the final version of the Chancellor's paper for NEDC next month. Many of the points raised at Monday's meeting here bore directly on the drafting of the paper, and have now been reflected in it. I am not, therefore, recording them separately. A number of other substantive points were, however, made at the meeting; you may find it useful to have this short note.

Mr. Prior argued, and the other Ministers agreed with him, that it was important not to build up the December NEDC meeting too much beforehand, since results would necessarily be modest. It was also suggested that we should try to obtain in advance a copy of the TUC's paper; I doubt whether we shall have much success.

Your Secretary of State argued, and all agreed, that the thrust of the Government's approach should be all in the direction of achieving common ground; but equally it was agreed that it was essential not to be manoeuvred into the position of appearing to seek a package deal of any sort with the TUC. There was a real risk of being pressed into unrequited concessions, e.g. on the industrial relations and housing fronts. These considerations re-emphasised Mr. Prior's initial point. The dialogue must be kept going, but expectations must not be raised too high.

Your Secretary of State suggested that it would be useful to have a meeting of NEDC entirely devoted to the role and problems of small firms.

On the line to be taken with the press, it was agreed

I. Ellison, Esq.,

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that pre-meeting publicity should reflect Ministers' wish not to stimulate exaggerated expectations, and should present the December NEDC as simply one stage in an evolving relationship. The meeting would be of normal length, and papers would be released as usual. Mr. Chandler would brief the press afterwards as usual.

Finally, there was some discussion of outstanding issues on the membership of NEDC. It was agreed that Sir Leslie Murphy should be asked to leave NEDC immediately now that he had resigned the chairmanship of the NEB. As for his replacement, an immediate decision was not needed; but your Secretary of State said he by no means ruled out Sir Arthur Knight as a possibility. Mr. Burgh reported that Mr. Nott did not favour removing or replacing Mr. Michael Shanks at the moment. Sir Douglas Wass was in the process of consulting the Governor of the Bank of England about the possibility of his succeeding Sir Eric Roll; your Secretary of State said he still had reservations about exposing the Governor in NEDC on a regular basis.

I am copying this letter to the Private Secretaries to the Secretaries of State for Employment, Trade and Energy, and to Lippitt, Burgh, and Kennedy, in your Department, and the Departments of Trade and Energy respectively. A copy also goes to Tim Lankester for information.

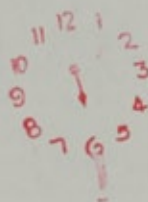
*Yours etc,*

*ME*

M. A. HALL

CONFIDENTIAL

28 NOV 1979





cc Mr Hockley  
Mr Wilson

RESTRICTED



Don't think <sup>from PGP</sup>  
The Chancellor's  
paper for next  
week's NEDC. The

Treasury Chambers, Parliament Street, SW1P 3AG (right conclusion),  
01-233 3000

though the analysis  
is a bit flat.

27th November 1979

Der lan,

and the  
language  
27/11

DECEMBER NEDC

At yesterday's meeting with your Secretary of  
State and the Secretaries of State for Employment  
and Energy it was agreed that the Chancellor would  
circulate his paper to NEDC members after amendment  
in the light of points raised at that meeting.  
..... This has now been done, and I enclose the final  
version which I have sent to the NEDC Secretariat.

I am copying this letter to Tim Lankester for  
information, and to Ian Fair, Bill Burroughs and  
Hugh Bartlett.

Yours  
M.A.

(M.A. HALL)

Ian Ellison, Esq.

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## POLICY ON THE ECONOMY

Memorandum by the Chancellor of the Exchequer

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### Introduction

It is not difficult to define the main objectives of economic policy. At the centre is sustainable non-inflationary growth in output to provide more jobs and improved living standards - including better public services as well as higher private consumption. The real problem is in agreeing on the precise means of achieving these objectives. But even here there is probably more agreement than many commentators would suggest.

2. Before turning to the prospects for the coming year or so, and the broad policies that seem inescapable if the foundations for economic recovery are to be soundly laid, it must be recognised that the economic position puts powerful limits on what is feasible in the period ahead. This means that in the short run the scope for influencing underlying trends is necessarily small.

### The historical context

3. Undoubtedly the most important general trends in the UK economy in the last 10 or 15 years have been poor productivity growth and continued inflation, reflected in weak industrial and trading performance and erosion of company profits. Some sectors - such as chemicals, instruments and electrical engineering - have grown rapidly since the war. And their productivity record has been good. Other industries for a variety of reasons have performed badly. For example under the impact of low productivity and industrial unrest the output of the UK car industry fell from 1.7m vehicles in 1973 to about 1.2m in 1978, whereas competitor countries increased their output markedly. As a result overseas competitors now have more than half the UK market for cars and employment in the home industry is suffering. The successful industries and companies are however a pointer to



what can be done, even though the dynamic sectors have not so far been a match for those in decline.

4. The rate at which the economy in aggregate has lagged behind has, of course, varied. At times we have done better but recently performance has weakened. For example, output per head in manufacturing rose by only  $\frac{1}{2}$  per cent a year between 1973 and 1978 - below previous trends and significantly slower than for most of our competitors. By contrast, money earnings rose fast and our relative labour cost competitiveness accordingly worsened. And, squeezed by cost pressures and competition from abroad, industrial and commercial companies' real rates of return averaged only about 4 per cent in the past 5 years, compared with around 11 per cent in the 1960s. All this has meant that, taken as a whole, our industry has not expanded to meet demand; manufacturing production last year, for example, was below its 1973 level, while the volume of manufactured imports had increased since 1973 by more than 30 per cent. This increasing inability of significant sectors of home industry to compete with overseas suppliers has been the main barrier to growth, not lack of demand.

#### Immediate prospects

5. Under the provisions of the Industry Act the government recently published forecasts for the period up to the end of 1980 and a number of other forecasts have also been published. Although there are differences of degree and emphasis, and the uncertainties are particularly large at present, three common features perhaps stand out:

- (i) Inflation is still too high, with the underlying rate of increase in retail prices, for example, now around 1 per cent a month. All the forecasts predict a slowing of inflation during 1980 although the year on year figure seems unlikely to come down until the second half of the year. The government's forecast suggests that in the year to the 4th quarter of 1980 the RPI increase will be about 14 per cent,

provided - and this is a key assumption - there is a progressive reduction in the size of pay settlements.

- (ii) Nearly all forecasters predict a fall in GDP in 1980 after the fairly flat trend over the past year, although the precise course of this will depend on success in reducing inflation, the pace of world trade and our trading performance.
- (iii) The current account of the balance of payments this year seems likely to be in deficit by up to £3 billion following the sharp increase in imports of manufactured goods, particularly in the first half of 1979, and a continued current account deficit, albeit at a reduced rate, is expected for 1980.

6. This outlook necessarily reflects world developments which increase domestic inflationary pressures and depress the demand for our exports. The effective price of oil, for example, is now 65 per cent higher than it was a year ago and the quickening of world inflation is one reason for the expected slower growth in the world economy. Output growth in the main industrialised countries seems likely to slow down from about 4 per cent in 1978 to little more than 1 per cent next year. And in turn markets for British exports of manufactures may grow by only about 4 per cent in 1980, less than half the rate enjoyed before 1974.

7. These international developments make the task of economic recovery that much more difficult. The shock effect of the oil price increase has worsened world inflation and has made the conduct of national economic policies, including monetary policies, more difficult. Nevertheless they must not be regarded as an excuse for failing to adopt the right measures for our own situation.



### Future policies

8. This background and the history of previous attempts to improve our performance underline the fact that there are no quick or easy solutions. (A major test at present may indeed prove to be how far, given the general recession in prospect for the world economy as a whole, we can retain our present standards of prosperity.) But they highlight again two imperatives:

- (i) If we are to avoid a long-term absolute decline in overall economic performance we should lose no time in laying foundations that will allow sustained non-inflationary expansion of the economy;
- (ii) growth and living standards cannot improve unless resources are used more effectively and efficiently.

9. It is probably helpful to distinguish two main approaches to be followed in setting the right climate for renewed growth. First, it is common ground that government should try to set the right overall economic framework in order to ensure, as far as is within its power, a proper balance of resources between different sectors of the economy, that inflation is controlled and that a satisfactory external position is maintained. Second, within this framework, there must be substantial improvement in, and encouragement to, what has come to be called the "supply side" of the economy. A major lesson of recent years has been the ineffectiveness of overall economic policies that have failed to pay sufficient regard to the problem of supply.

10. The pattern of industrial growth to be built on these foundations is not something that governments can or should dictate from the centre. Opportunities for building new industries - services as well as manufacturing - around new products and markets will spring from trends in consumer demands and technological change at home and overseas. What these trends will be is uncertain but they could, for example, spring

from developments in the energy field and in service oriented industries. Smaller scale enterprises will probably have a big role to play: a recent study showed that in the USA 60 per cent of all jobs are generated by firms employing 20 employees or less and a recent study of the Cleveland area in the UK indicated the importance of small firms in providing new jobs as jobs in old-established industries disappeared. It will be necessary to think in completely new ways about what will in future constitute "employment". Trends for employment under the impact of new technology will be discussed at the January meeting of the Council. The economic framework and industrial atmosphere need to create an environment in which new occupations, industries and jobs can flourish and take up resources freed from industries in decline.

#### Overall economic framework

11. Successive Governments have set themselves the aim of controlling inflation. Continued high inflation undermines consumer confidence and demand and eats into the social fabric through its perverse redistributive effects. It affects not only today's jobs but, by corroding business confidence and reducing investment, ensures that many potential new jobs will be stillborn. There have been repeated attempts, whether of a statutory or non-statutory kind, to restrain inflation by direct control of incomes. The promulgation of a norm for pay increases - for example a fixed percentage - has not been successful. By introducing distortions and hampering the flexible allocation of resources it can be positively harmful and there is now increasingly general agreement that an institutionalised "incomes policy" is not a realistic answer to the problem of inflation. There has at the same time been a growing recognition on all sides of industry that firm monetary control is essential if inflation is to be tackled at its roots.

12. Precisely how that monetary control should be applied is a matter for legitimate discussion and debate. The government



has continued the practice of setting specific targets for monetary growth, and has demonstrated its determination to see that they are observed. Inflation can only be mastered if the money supply is brought under firm control and its rate of growth progressively reduced over the years.

13. But although an appropriate monetary policy is a vital part of the framework, it is also necessary to ensure a proper balance between the resource needs of the public and private sectors. In particular this means that, though there is room for disagreement over particular priorities, the total volume of public spending must be planned on realistic assumptions about economic growth. The evidence is that to allow public spending plans to run ahead of growth of GDP leads to the need for disruptive cut-backs and, except in the very short term, a stifling of the very economic growth that is the only sound basis for improvements in public services. The aim is to see that over the years public spending as a proportion of GDP should decline.

14. Experience has shown that excessive levels of public spending have led to too much government borrowing and to high taxation, which have impeded growth. High levels of borrowing have also prevented proper monetary control and therefore led to inflation and high interest rates, and hence in turn to further disincentives to investment and economic efficiency. And the consequent lack of growth has made it harder to bear the burden already imposed on the economy by rising public expenditure. It is essential to break out of this vicious circle; and proper restraint on public expenditure is clearly a necessary element in achieving this. In present circumstances indeed, it is not possible to plan for any increase in public expenditure over the next few years.

2 "Supply Side" policies

15. The setting of the right overall framework is an essential requirement for resumption of sustainable growth. But it is

not enough. The challenge of the energy crisis, of new technology and of newly industrialising countries - all of which the Council have discussed - call for much greater flexibility and willingness to adapt within industry and society generally. The response has to come from industry, but the government can help by doing what it can to create an environment favourable to enterprise and innovation. A major need at present, as recognised in papers before the November meeting of the Council, is for a major programme to raise awareness of new technologies throughout industry and to use all opportunities to persuade people of the paramount need for more effective use of industrial resources.

#### Incentives

16. There has been little doubt that the public has wanted the burden of direct tax reduced. With current levels of public expenditure this has necessarily involved a substantial switch from tax on income to tax on spending. Income tax reductions in the Budget helped to mitigate the disincentive effects of the poverty trap and bring our personal tax rates more in line with those in other countries. The restoration of incentives is an important part of action to remove the constraints on growth imposed by skilled labour shortages, which have tended to persist even when unemployment generally has risen and have acted as a brake on expansion. The TUC paper discussed at the November Council meeting, for example, stressed the importance of securing a proper supply of trained manpower for the micro-electronics industry. Improvements in manpower and training policies are one part of the solution to this problem but tax policy must help in establishing differentials which make it worthwhile to gain and use improved skills.

17. The Government hopes in the years ahead to be able to make further cuts in income tax and to achieve a further real increase in thresholds; and it is also reviewing the systems of company and capital taxation. But the rate of progress in all these areas will be subject to the constraints imposed by the difficult economic prospect and to the need for fiscal policies consistent with responsible monetary control.



18. Change in the economy inevitably involves upheavals for individuals and their families as jobs disappear in one industry and new employment opportunities arise elsewhere. It is an important responsibility of government to ease the passage of change for those who lose their jobs, through manpower and training services and the social services.

#### Removal of barriers

19. Apart from changes in tax policy, of the kind now implemented, there have been widespread demands for the removal of unnecessary controls and administrative burdens on industry. The government is ready to do what it can. Price, dividend and exchange controls have already been removed, as have Office Development Permits. Changes have been made in the Industrial Development Certificate system, and other planning controls are being modified. Ways of simplifying planning procedures and building regulations are being reviewed with a view to reducing the time taken to complete investment projects. In addition certain changes were made in July to provisions of the Employment Protection Act and consultations have begun on proposals to amend other provisions which many agree have discouraged the formation of new jobs. The aim of all these changes is not change for change's sake but a genuine wish to let firms and their employees concentrate on flexible deployment of resources and reduce the effort which has too often had to be put into observing rules and regulations of only marginal usefulness.

20. Although none of these measures by itself holds the key to getting the "supply side" of the economy right, cumulatively they should help to improve the general climate for industry. But there are other factors of equal importance. In many situations, for example, competition is the best promoter of both industrial efficiency and the interests of the consumer. This is why the Government have introduced the Competition Bill which will permit the Director General of Fair Trading and the Monopolies and Mergers Commission to investigate restrictive practices more selectively - individual firms and bad practices will be liable to investigation - and more expeditiously. The

Bill also provides for the investigation of alleged abuse of monopoly power by, and of the general efficiency of, public sector trading bodies.

21. Within the freer and potentially more rewarding environment that we should like to create, the prime responsibility for improving industrial performance must rest squarely with management and employees at company and plant level. But, when they operate effectively, the tripartite Sector Working Parties (SWPs) also have a valuable role in helping to identify what needs to be done in particular industries and in stimulating the necessary action at company level. In many sectors the problem is one of poor non-price competitiveness (e.g. outdated product design, poor quality and inadequate delivery and after-sales service); in other cases the SWPs have shown that there is considerable scope for improving performance by strengthening co-operation between potential users (including retailers) and potential suppliers, or by curbing the unnecessary proliferation of purchasing standards and requirements. There are other major cross-sectoral issues such as productivity (in its widest sense), the manpower issues such as skill shortages, and technological developments including microelectronics. These are all issues which the SWPs have been tackling and will need to keep to the fore in future work.

#### General conclusions

22. In the light of this and the other papers before it the Council will wish to consider the general approach to the difficult problems ahead. While there will naturally be different views on particular aspects, some broad conclusions may be thought to emerge.

23. First, although the difficult prospect ahead limits the room for manoeuvre and a painful period of adjustment seems inevitable, the prime aims of economic policy must be to reduce inflation (and thereby restore confidence) by proper monetary control, to get the balance of the economy right and to take every opportunity to encourage growth through encouragement to the "supply side" of the economy.



27 NOV 1979



24. Second, within the above objectives, the prospects for the company sector and the path of unemployment depend heavily on the individual behaviour of those setting pay and prices in industry. The absence of an institutionalised "incomes policy" does not remove the need for a responsible attitude to pay settlements. Indeed the firm restraint of money supply underlines the imperatives that need to be respected by both sides of industry. Excessive increases in pay or prices are bound to cause a deeper recession, more unemployment and slower reduction of inflation.

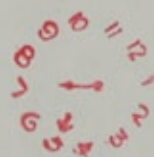
25. Prosperity and jobs depend crucially upon achieving an effective use of all resources. The economy can only grow if we are industrially competitive. There is widespread agreement about the need to accept new technology; and about the importance of improving consultations and communications between both sides of industry at all levels. The main focus for action must be at company and plant level, and here the Sector Working Parties have an important part to play. It is vital that throughout industry and in government everything possible should be done to help raise industrial performance and to equip the economy to respond and adapt more quickly to a fast-changing world.

(G.H.)

H.M. TREASURY  
Parliament Street

27th November 1979





27 NOV 1979

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Domestic Policy

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PRIME MINISTER

After your meeting with the Chancellor this morning, which had to be cut short, he mentioned to me three points:

- (i) He hoped that you might encourage Mr. Whitelaw and Lord Carrington to make a major speech on economic policy. He felt that too much of the burden of explaining the Government's economic policies was falling upon you and himself. It was important, in his view, that other senior Ministers should be speaking out. He suggested that John Hoskyns might provide Mr. Whitelaw and Lord Carrington with suitable material. (I am sure that you will not want to burden Lord Carrington with anything more at the present; but perhaps you might have a word with Mr. Whitelaw.)

- I also had a  
memorandum  
criticism of the  
Bank at lunch  
on Friday.  
We really need  
to over-see  
again - and I must put across the view that I can rely on
- (ii) The Chancellor said that he was conducting a post-mortem on how the Bank went wrong in their handling of the October funding programme. Gordon Pepper has published some trenchant criticism of the Bank (see Flag A); and although some of his criticisms are unjustified (as explained in the Treasury note at Flag B), their performance was certainly lacking - especially the failure to arrange any funding.

- (iii) The Chancellor said that David Lea of the TUC had been in touch with Sir Douglas Wass after the resignation of the NEB Board. Lea had said that there was growing pressure within the TUC General Council for the TUC to withdraw from the NEDC Sector Working Parties, and that this could escalate to demands for withdrawal from the NEDC and possibly the MSC and other bodies as well. Lea explained that this would all come to a head at next Wednesday's TUC General Council meeting, where he thought there would be strong pressure on Len Murray to ask for a meeting with you. Lea thought that this would be counter-productive in that you would be unable to meet the TUC's demands, and that this would then make withdrawal from NEDC, etc. inevitable. He suggested that the position of Murray and others who wanted to maintain contact with the



Government would be made a good deal easier if you were to take the Chair at the December meeting of NEDC.

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The Chancellor does not think this would be a good idea, although he thinks that Lea is trying to be helpful. The December meeting of NEDC is, as you will recall, to review the economic outlook (in lieu of the economic forum idea); and he wants to handle this himself. But, in any case, your attendance on that day would be difficult: you have the memorial service for Betty Harvey Anderson followed by the Press Gallery Lunch at which you will be making a major speech.

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I take it, therefore, that you do not want me to pursue the idea of you chairing the December meeting. That said, if Lea's prediction is correct, we may get a request from Murray next week for an early meeting. If you agreed to a meeting, I do not think it need necessarily be unproductive: I think you could help to calm the TUC down. On the other hand, to refuse a meeting would almost certainly aggravate the situation.

From the Chancellor's point of view, a meeting before the December NEDC meeting would no doubt be helpful - we could probably squeeze this in on 4 December. But, for the moment, we do nothing.

12

22 November 1979

Evan B.

Top Copy in Appointments

NOTE FOR THE RECORDcc: Mr. Whitmore <sup>WJ</sup>

16 vi

The Chancellor of the Exchequer called on the Prime Minister at 0900 hours this morning. They discussed very briefly the Chairmanship of the Inland Revenue. The Chancellor indicated that he had been unable to obtain any of the favoured candidates from outside the Civil Service, and that his choice was now Sir Lawrence Airey. The Prime Minister said that she did not want to pursue the possibility of an outside candidate any further - in particular, it would be a mistake to recruit a "second-rater". She therefore agreed that Sir Lawrence Airey should be appointed in succession to Sir William Pile.

They also discussed Lord Caldecote's proposal that a Treasury official should become a board member of one of his companies. The Prime Minister reluctantly agreed.

I have written to the Treasury on both of these matters.

In addition, the Chancellor proposed that Mr. Heseltine should become a full member of NEDC. He explained that there was room for one more Ministerial member. The Prime Minister said that she did not wish Mr. Heseltine to become a member - though she had no objection to his attending from time to time when matters relating to his Department came up.

T. P. LANKESTER

15 November 1979



# NEDC MEMBERSHIP (as at 14.11.79.)

## TUC

## DATE OF APPOINTMENT

## DATE OF EXPIRY

Len Murray	September 1973	October 1981
Frank Chapple	October 1979	October 1981
Terry Duffy	October 1978	October 1980
David Basnett	April 1973	June 1981
Moss Evans	April 1978	April 1980
Geoffrey Drain	November 1977	October 1981

## CBI

Sir John Methven	July 1976	July 1980
Mr H A Whittall - <i>key</i>	January 1978	January 1980
Sir Alex Jarrett	June 1976	June 1980
Sir Jeremy Morse	July 1977	July 1981
Sir John Greenborough	July 1977	July 1981
Sir Ray Pennock	August 1979	August 1981

## Nationalised Industries

Sir Charles Villiers	November 1976	November 1980
Sir Denis Rooke	October 1976	October 1980

## INDEPENDENT/EX OFFICIO MEMBERS

<i>Sw</i> <del>Sir Leslie Murphy</del>	<del>July 1977</del>	<del>July 1979</del>
Richard O'Brien	July 1977	July 1981
Lord Roll	October 1971	October 1979
Michael Shanks <i>Green</i>	November 1977	November 1979

## DIRECTOR GENERAL NEDO

<i>An</i> . Geoffrey Chandler	April 1978	April 1982
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*Please File*

*4 Dec:*

*EJ.  
- mlu*

10 DOWNING STREET

PRIME MINISTER

As you know, you are chairing a meeting of NEDC on Wednesday 9 January at 1500. The Director-General, Geoffrey Chandler, would like to come and see you for 15 minutes prior to the meeting. I have had a word with Tim and he considers this to be a good idea.

*EJ.*

*Yes and*

13 November 1979



Prime Minister

cc Mr Hosley on  
Mr Wolfson

Qa 04321

To: MR LANKFESTER

From: SIR KENNETH BERRILL

I don't think the TUC  
approach is quite so  
positive as his note  
implies. Although better than  
it was, their attitude  
is still pretty defensive -  
and always looking to  
Government to help out.

The Prime Minister and the NEDC

But at least they acknowledge  
that the 'micro-electronic revolution'  
is here to stay.

1. I have read your minute of 2 November to Martin Hall on the Prime  
Minister taking the chair at the January meeting of the NEDC at which  
technological change, industrial adjustment and employment will be  
discussed.

IL

13/11

2. The CPRS co-ordinated the work in Whitehall on the social and  
employment consequences of microelectronics. The initial response of  
some trades unions was hostile and defensive (i. e. Luddite), but their  
current attitude is unusually forward looking. (I attach NEDC(79)56 and  
the Report to Congress.)

3. Such bright spots are rare enough to deserve every encouragement.  
Perhaps the Prime Minister would make both encouraging noises at the  
NEDC meeting or in a couple of speeches before and after.

4. I am sending a copy of this minute to Sir Robert Armstrong.

K.B.

6 November 1979

Atts

You might want to  
refer to this in your  
C.T.U. speech.

7 NOV 1979

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ADDRESS TO THE CONFERENCE OF THE NATIONAL JOINT COUNCIL FOR THE  
DAIRY INDUSTRY IN ENGLAND AND WALES, DROITWICH, 5th NOVEMBER 1979

by Geoffrey Chandler, CBE, Director General, National Economic Development Office.

We are a country in crisis, but do not recognise it.

The crisis lies in our continuing failure over the years to match our industrial competitors so that we have seen a decline of our share of export markets, the increasing loss of our home markets to imported products, and the steady erosion of our ability to provide the higher standard of living and quality of life that people want.

Fifteen years ago our standard of living was ahead of France; today it is 20% below it. But because our own standard of living has in fact grown over the years, however slowly by comparison with others, the underlying crisis goes unrecognised. But the symptoms are now multiplying; and without appropriate policies and action will multiply further. Our lack of money for hospitals, for schools, for better wages and conditions, for investment, all result from our lack of industrial success, and the symptoms of failure also become its causes.

The reason for our situation is simply stated: it is that "Made in Britain" in general no longer means goods which are competitive in quality and delivery or are not what the customer wants.

For this we have no-one to blame but ourselves. All have contributed to this situation:- governments, management, trade unions, and a culture and education inimical to productive activity. We have never, short of wartime, had so great a need for a joint perception of our common difficulties and for a common approach to them. This does not imply corporatism, nor a greater role for the state. It requires leadership and it needs each part of society to play a positive role in solving these problems - and in co-operation, not confrontation, and in criticism of itself, not passing the blame to others.

But the first requirement is to understand that the problem is real.

North Sea Oil hinders this understanding because it helps to disguise our basic economic weakness. But it will not last long. Like people within a fortress with crumbling walls, we sit and quarrel among ourselves, failing to develop the weapons with which to fight once those walls have gone - as inexorably go they will.

Clearly we must regard high and accelerating inflation as the prime enemy in the short term. Clearly a fiscal climate which encourages enterprise is necessary. But we have to ask whether present government policies are sufficient in themselves to bring about the necessary industrial change. I do not believe they are.



The roots of our inability to compete are far too complex and deep-seated to be remedied in time - or remedied at all - by these policies and by the market mechanism alone. The diagnosis calls for much more.

The British economy is not a frog-prince to be transmogrified by a kiss or cold bath; it is a Rip van Winkle needing massage in every limb. The human and technical failings which have bedevilled British industry since the war - failure in industrial relations, failure to involve people in their work and to give them understanding of it, failure to identify changes in international markets, failure to apply technological advances sufficiently fast - all these need very much more to remedy them than an appropriate environment alone.

We need a comprehensive and positive industrial policy. Our competitors have long had such policies - either implicitly or explicitly - and it is folly to believe that we can match their performance without matching their behaviour.

Such a policy should not be based on any political ideology, but on the pragmatic aim of making Britain more competitive, more responsive to market forces, more ready to undertake change. It should have the support of both political parties, because the time needed for solution - and indeed the whole time-frame of industrial investment - are longer than the life of the average government.

An industrial policy must involve all parts of society. But it requires a clear lead from government, since it is to government that the country is entitled to look for leadership.

The elements of such a policy fall into three categories:-  
improving the market mechanism; supplementing the market mechanism; cushioning change for the individual.

None of these proposals is intended to diminish the impact of the market. Rather the opposite: they are intended to make Britain more competitive in a market which will indeed work, but without such a policy will work - as it is working now - in favour of our competitors who in many cases already have the elements of such a policy, or, for a variety of historical and social reasons, do not require it. Without it we may well find that we achieve the conditions and climate for growth without the ability to profit by them.

First we need an explicit commitment by government to give priority to productive activity and to harness the whole of government and its institutions to assist the wealth-creating process of this country, from the re-shaping of school curricula to specific assistance for industrial projects. This must not mean abandoning the protection of our physical environment: it means a more effective clarification of the choices society confronts, a clearer exposition and application of guidelines, and a speeding-up of decision-making processes.



Second, to improve the market mechanism we need provision for better and more intelligible disclosure about company performance (which must include inflation-adjusted accounting); guidelines determining the role and qualifications for outside company directors; and a more positive role for the financial institutions as shareholders of a significant proportion of British industry.

Third, we need to help the dissemination of information about market conditions, about changes in customer requirements, about efficient methods of operation and new product opportunities, so that companies can respond more quickly to change. Over the thirty years or more since the war the market has not worked to make companies generally efficient, though there have been shining exceptions. Customers' needs - domestically and internationally - have been anticipated faster by our competitors and met more effectively by them. Here the NEDO tripartite committees continue to have a vital role to play. By analysing what is wrong with individual sectors; by extending knowledge of best practices; by bringing together supplier and customer - something that ought to, but doesn't, happen of its own accord; by giving leadership to industries whose morale is shaken by the severity of their problems, these committees, where they are effective, have shown that they can make an essential contribution. They have in addition the unique value of providing a forum where employers and trade unionists can sit down together to discuss industrial problems crucial to the survival of both, but which may otherwise only be discussed, if at all, in an atmosphere of negotiation and confrontation. The government has shown a welcome pragmatism and openmindedness in its approach to these committees; but as it satisfies itself of their individual

relevance and potential, it needs to provide them with its positive support and not simply a reluctant acquiescence.

Fourth, there is a need for government assistance, selectively applied, in the financing of modernisation, research and development, and training in our existing industries. The direction of such assistance should be in areas of potential growth. No-one possesses a special wisdom in identifying such areas: they are eventually sorted out by the market and the wants of the consumer. But judgements will have to be made - as they are in competitor countries - about strengths and weaknesses and the NEDO tripartite committees can again help in pointing the direction for such assistance within individual sectors.

Fifth, we have to stimulate investments in new technology and new industries. We have to move 'up market'. This again is something that has happened insufficiently fast in response to market forces on their own and we need to add to the diversity of decision-making and of decision-makers. No-one has a monopoly of right decision-taking. It is from diversity of ideas and effort, and from diversity of criteria that "winners" emerge. We have been slower than our competitors in areas of new technology. I therefore believe that an entity such as the National Enterprise Board, or a body like it, has a role, not as a sick-nurse for ailing industries, not as a conglomerate state shareholder, but as an entrepreneurial gadfly providing an added element of decision-making particularly in high technology areas.



This is perhaps a difficult concept. But operating within a commercial framework, using somewhat different criteria for decision-making - which will lead to the riskier innovative decisions which also provide a spin-off for the whole economy - and identifying gaps which are otherwise not being filled, I believe there is an important role to be played here.

Sixth, we need much greater effort to encourage employee involvement in the companies in which they work, whether through share ownership schemes or other forms of participation. The need for the individual worker - at whatever level in the company - to feel that his or her fortunes are identified with the success or failure of the entity for which he or she works is essential.

Finally, we need policies to assist people to be flexible and mobile in their jobs. This means an educational infrastructure appropriate to the 1980's, facilities for training, assistance to the individual to change jobs through re-training or re-location in order to help the personal adjustment which is the inevitable - but most difficult - part of any industrial adjustment.

None of these proposals need imply a deflection for government from the principles of its present policies; none requires a 'U' turn. Some of the elements proposed have existed under previous governments and some indeed exist today; but no government since the war has adopted a comprehensive long-term policy for industry and sustained it both in its general economic policies and at sector level simultaneously.

I have described those things in which government has a role to play. But all these measures, however necessary, can only set a framework. It is managers and trade union leaders, employers and employees, who will have to act and change in order to make us once again competitive. But the appropriate action will not be taken without better understanding of the problem.

I therefore believe that the exercise in which you are engaged this week is of great potential value and importance. Ignorance is the worst enemy. The context in which we have to see our problems is a long-term one and dialogue must be a continuing one if it is to be useful. The provision of information needs to be a continuing process through which trust is created, not a tactical weapon for specific purposes.

There are two particular questions I would like to put - the first to the employer representatives here tonight, the second to the trade union representatives.

The first to the employers: Are you satisfied that you have a mechanism - and devote sufficient time to it - for assisting your employees, at all levels of the company, to understand the state and prospects of the company and the industry and the context, nationally and internationally, in which it finds itself? And are you satisfied that you tell them what they want to know, as opposed to what you think they need to know?



And my question to the trade union representatives is this:  
Are you satisfied that your unions have the staff and research capabilities to make an independent judgement of the industry and its long-term situation and of the information you receive? Have you the capability to judge whether or not a company is performing efficiently in the context of growing international competition?

I suspect the answers to these questions is 'No'! And if so, you bargain annually at your peril - like two men wrestling in the dark on the edge of a precipice. Until the answers are 'Yes', I do not believe you will have the foundations of a competitive industry or of proper relationships.

Several of the measures I have suggested as part of an industrial policy imply greater scrutiny of management and of the quality of its creative performance. It is important for trade unions also to see how they can improve their creative performance. The interests of your members will ultimately be best served by the degree of knowledge you have of your industry, its context, and its possibilities, and the manner in which you apply that knowledge to improving the competitive performance of your industry.

Ultimately we are talking about change and our ability to change faster than we have in the past; and ultimately change is about the individual and its impact on the individual.

Change is not going to come about unless it is accompanied by humanity and compassion. We need efficiency with humanity and change with compassion. Without compassion and humanity we are not going to be able to introduce efficiency and change. Without efficiency and change we will not have the resources to exercise humanity and compassion.

30th October 1979





BF 4.1.80 DS

10 DOWNING STREET

*From the Private Secretary*

2 November 1979

The Prime Minister has now considered your letter of 25 October about future meetings of NEDC.

The Prime Minister would like to take the Chair at the NEDC meeting on 9 January on the basis that the agenda for that meeting will be the papers mentioned in your letter on technological change, industrial adjustment and employment; a report from the Chairman of a Sector Working Party; and some detailed aspect of industrial performance. No doubt these papers will be circulated well in advance, but the Prime Minister has specifically asked whether we could see an outline of the SWP Chairman's report before he makes it.

I would be grateful for briefing in due course. If for any reason the agenda has to be changed, please could you let me know immediately.

I am sending a copy of this letter to Ian Ellison (Department of Industry), Ian Fair (Department of Employment), Stuart Hampson (Department of Trade), Bill Burroughs (Department of Energy) and Martin Vile (Cabinet Office).

T. P. LANKESTER

Martin Hall, Esq., M.V.O.,  
HM Treasury.



Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

26th October, 1979

Dear Sir,  
✓  
NEDC

Further to my letter of 24th October, I now understand that the Finniston Report could well be late, and that February would be the earliest possible date for an NEDC discussion; even this could be optimistic.

I am copying this letter to the receipts of my earlier letter.

Yours ever,

John Batten

M. (M.A. HALL)  
Private Secretary

T. Lankester, Esq.,  
Private Secretary,  
10, Downing Street





26 OCT 1979



10 DOWNING STREET

Tim Lakerster

All dates are  
available - but  
9 January wd be  
marginally more  
convenient than the  
others as the House  
will be sitting.  
It's pencilled in -  
the others aren't.

R.J.

25/10.



9th Jan  
agreed out



Prime Minister

Would you like to take  
the chair at the 9 January  
meeting with the items at  
x and y on the agenda?

Treasury Chambers, Parliament Street, SW1P 3AG  
01-233 3000

This agenda should  
be quite interesting.

24th October 1979 and January

will be more convenient  
than Feb/March, with  
Parliament not sitting.

Dear Tim,

NEDC

In my letter of 17 October, I said that I would  
write to you again about the possibility of the Prime  
Minister taking the chair at a meeting of NEDC early in  
1980.

TL

1/11

The Council will be meeting on the afternoon of  
9 January and in the morning of 6 February and 5 March.  
The agendas have not yet been fixed and it should be  
possible to take account of the Prime Minister's wishes if  
she decides to attend one of these meetings. The major  
items in prospect for these meetings are a clutch of  
related papers by the Departments of Employment and  
Industry, NEDO and the TUC on technological change,  
including micro-electronics, industrial adjustment and  
employment, which could probably be taken in January  
or February; a paper by the Department of Industry on the  
Finniston Report on the supply and use of engineers,  
which should be available for January or February; and  
a paper on competition policy by the Department of Trade  
which they hope to have ready for a meeting in February  
or March. The first item is likely to produce the most  
substantial discussion in Council and will attract most  
outside interest. In addition to one of these items,  
we would expect the meeting to include a report by  
the Chairman of a Sector Working Party, which is a  
regular feature of meetings and which we think would be of  
interest to the Prime Minister, and a third item which  
would probably cover some more detailed aspect of industrial  
performance.

x

(hasn't be  
available  
until  
February)

He would  
let us  
have a  
copy in  
advance  
out.

y

There is, as I have indicated, some flexibility  
about the timing of the major items and if you could let  
me know very soon which date would be convenient for the  
Prime Minister and whether she has a preference for one

/ of them

T Lankester Esq.



of them we will seek to settle the agenda with the other parties to the Council accordingly.

I am copying this letter to Ian Ellison, Ian Fair, Stuart Hampson, Bill Burroughs, and Martin Vile.

*Ys aw,*

*ME.*

M.A. HALL





TOXINIDROG

1911

N

Econ BP



DEPARTMENT OF INDUSTRY  
ASHDOWN HOUSE  
123 VICTORIA STREET  
LONDON SW1E 6RB

TELEPHONE DIRECT LINE 01-212 3301  
SWITCHBOARD 01-212 7676

PS/ Secretary of State for Industry

23 October 1979

Tim Lankester Esq  
Private Secretary to the  
Prime Minister  
10 Downing Street  
London SW1

*R 24/10*

*Dear Tim*

My Secretary of State has seen a copy of your letter to Martin Hall of 18 October and has commented, in connection with the proposal that the Governor of the Bank of England should replace Sir Eric Roll as a member of the NEDC, that he and the Chancellor had agreed that further consideration ought to be given to the effect that such an appointment might have on the status of the office of Governor. His understanding is that the Chancellor would discuss this matter further with his colleagues before a final decision was taken. I have discussed this with Martin Hall in the Chancellor's office and I understand that the Chancellor is intending to pursue the matter with the Governor.

I am sending copies of this letter to the recipients of yours.

*Yours ever*

*Ian Ellison*

I K C ELLISON  
Private Secretary



DEPARTMENT OF INDUSTRY  
ADDENDUM NO. 2  
101 VICTORIA STREET  
LONDON SW1E 5JL

TELEPHONE: 01-235 1234  
TELEGRAMS: INDUSTRY



24 OCT 1979

FILE  
CONFIDENTIAL



DS  
Economic  
Policy

10 DOWNING STREET

*From the Private Secretary*

18 October 1979

When the Chancellor called on the Prime Minister this morning they briefly discussed membership of NEDC. The Chancellor said that he had now discussed the possible changes, which he had mentioned to the Prime Minister previously, with the Secretaries of State for Industry, Trade and Employment. They all agreed that the Governor of the Bank of England should replace Sir Eric Roll. But Mr. Nott was doubtful whether it would be right to replace Mr. Shanks since he was being quite helpful in the consumer field. Moreover, Sir Keith Joseph felt that it would be inopportune to replace Sir Leslie Murphy for the timebeing.

The Prime Minister agreed that the Governor should be appointed to the NEDC in place of Sir Eric Roll, and that Mr. Shanks and Sir Leslie Murphy should continue as members.

I am sending copies of this letter to Stuart Hampson (Department of Trade), Ian Ellison (Department of Industry) and Ian Fair (Department of Employment).

J. P. LANKESTER

Martin Hall, Esq., M.V.O.,  
HM Treasury.

CONFIDENTIAL

SB



CONFIDENTIAL



Treasury Chambers, Parliament Street, SW1P 3AG

01-233 3000

17th October, 1979

*Der Tim,*

*12 18/10*

NEDC

I am writing simply to record the Chancellor's report of his conversation with the Prime Minister at Chequers last Sunday. His understanding is that the Prime Minister agreed that the December meeting of the NEDC should be devoted to a general economic discussion; and that the Chancellor should take the chair at that meeting. Arrangements are now going ahead on that basis.

I shall write to you again shortly about the possibility of the Prime Minister taking the chair at a meeting of NEDC in the first few months of 1980, with some indication of the likely agendas.

I am copying this letter to Ian Ellison, Stuart Hampson, Bill Burroughs, Ian Fair and Martin Vile.

*Yours ever,*

*ME*

(M.A. HALL)  
Private Secretary

T. Lankester, Esq.,  
Private Secretary,  
10, Downing Street

CONFIDENTIAL



18 OCT 1979



NEDC - see p2

Top Copy on: Econ Pol,  
P+S,  
Pub. Exp.PRIME MINISTERMeeting with the Chancellor - Thursday 18 October, 0845

I understand the Chancellor may want to discuss the following issues with you tomorrow morning:

i) RSG Cash Limit for 1980/81

There is a minute on this at Flag A. This proposes certain assumptions on pay and prices for working out the cash limit. The pay assumptions (in paragraph 7) consist of estimates of what will be the effect of the outstanding Clegg awards, an assumption of 14% in other settlements up to end July 1980, and 12½% for settlements for the following year. On prices, the Chancellor proposes 13% - rather less than the Treasury's forecast/assumption for price increases generally. The purpose of this is to put some additional squeeze on the local authorities. MISC 21 have decided (see minutes at Flag B) that the RSG percentage should be 61%, as against 58% proposed by the Treasury. This, if endorsed by Cabinet, will reduce pressure for rate increases; on the other hand, it will mean more public expenditure than the Treasury were counting on. In order to soften the public expenditure effect of a 61% grant, it would be wise to have a tight cash limit, and therefore the Chancellor's proposals on pay/price assumptions seem right. (If they are too tight, the local authorities will not believe the pay/price assumptions on which they are based; and will again put up the rates by an excessive amount.)

ii) TV Licences

The Chancellor has agreed the Home Secretary's proposals for TV licence increases, which the Home Secretary discussed with you. These call for a £9 increase for colour sets from November and a £2 increase for monochrome sets; and they are to last for 2 years. You made various suggestions

/ to the Home Secretary

to the Home Secretary (record at Flag C) - such as that there should be no increase for monochrome sets if the monochrome licence falls largely on pensioners. I think it would be best to wait for a minute from the Home Secretary, in which he will no doubt cover your points, before taking any final decision.

(iii) NEDC Membership

You discussed this last time, and suggested that Sir Leslie Murphy should not be re-appointed and should be replaced by somebody from small businesses and that Mr. Shanks should be replaced by Daisy Hyams.

(iv) Gas Prices

The Chancellor will show you figures on the PSBR effect of delaying the gas and electricity price increases by one year - as suggested in E this afternoon.

(v) Defence Expenditure

There is a dispute between the Treasury and MOD about the interpretation of the 3% NATO commitment. The argument is continuing to ~~rage~~ (as reflected in three minutes which are in the Cabinet folder). You told the Chancellor earlier that you would support him against Mr. Pym.

At last week's meeting with the Chancellor you asked for a note on additional demands for finance coming forward from the nationalised industries, Rolls Royce, British Leyland, etc. This is at Flag D. It shows that there are some substantial potential demands - in 1981/82 as much as £850 million - and this is on the assumption that the Chief Secretary's proposals to Cabinet for "cutting" expenditure are agreed, including the energy price increases. The note simply reinforces the importance of getting as much of the Chief Secretary's proposals on public expenditure through Cabinet as possible.

12.



**MASTER**

Private and confidential

copy of this page attached to  
MASTER Set of Minutes.

Econ Pol



# National Economic Development Council

COPY NO 1

NEDC(79)8th Meeting

MINUTES of a Meeting at the NATIONAL ECONOMIC DEVELOPMENT OFFICE  
Millbank Tower, Millbank, London SW1 on  
MONDAY 8 OCTOBER at 10am

## Present:

The Rt Hon Sir Geoffrey Howe MP  
Chancellor of the Exchequer  
(in the chair)

Mr Geoffrey Chandler

Mr T Duffy

Rt Hon Sir Keith Joseph MP  
Secretary of State for Industry

Sir Leslie Murphy

Mr R O'Brien

Sir Denis Rooke

Sir Charles Villers

Mr G A Drain

Sir Alex Jarratt

Sir John Methven

Rt Hon Lionel Murray

Lord Roll

Mr M J Shanks

The following were also present:

Lord Gowrie  
Minister of State, Department of  
Employment

Mr Cecil Parkinson MP  
Minister of State, Department of  
Trade

Mr S Gibbs  
Chairman of the Plastics Processing SWP  
(For item 2 only)

Miss A Brimelow  
Department of Industry

Mr G Dawe  
National Economic Development  
Office

Mr W Callaghan  
Trades Union Congress

Mr P V Dixon  
HM Treasury

Prime Minister  
Perhaps you might glance  
at this to get a flavour  
of NEDC discussions.  
I hope the Chancellor will  
be advising soon on  
which meeting you might  
take the chair at.

No hurry! 12/10

Private and confidential

Mr J Driscoll  
Nationalised Industries  
Chairmen's Group

Mr W Green  
National Economic Development  
Office

Mr R Hillier  
Department of Employment  
(For item 4 only)

Mr P Hudson  
Department of Industry  
(For item 2 only)

Mrs D Kent  
Department of Employment

Mr D Lea  
Trades Union Congress

Mr N Marmont  
Confederation of British Industry

Mr B Mower  
HM Treasury

Mr E A J Rayner  
Confederation of British Industry

Mr T Sparrow  
National Economic Development  
Office  
(For item 2 only)

Mr D K Stout  
National Economic Development  
Office

Mr K J A Fraser  
National Economic Development  
Office

Mr M Griffin  
National Economic Development  
Office  
(For item 2 only)

Mr J R S Homan  
National Economic Development  
Office

Mr F Jones  
HM Treasury

Mr G Lanchin  
Department of Trade

Mr I Lightman  
Department of Industry

Mr A McDonald  
Department of Industry

Mr S K Pursey  
Trades Union Congress

Mr T Rickett  
National Economic Development  
Office

Mr I Stewart MP  
Parliamentary Private Secretary  
HM Treasury

Mr M Whitehouse  
Confederation of British Industry

Secretariat :

Mr T U Burgner  
Mr D A Truman





Econ Pol.

FC

10 DOWNING STREET

From the Private Secretary

4 October 1979

Dear Mr. Hall,

As I have already mentioned to you, the Prime Minister and the Chancellor discussed membership of the NEDC when they met this morning. The Chancellor explained that three members - Mr. Michael Shanks, Lord Roll and Sir Leslie Murphy - were coming up for renewal. The Chancellor proposed - and the Prime Minister agreed - that the Governor should replace Lord Roll. The Chancellor went on to say he would not wish to reappoint Mr. Shanks; if Mr. Shanks was not reappointed, there was the question of whether he should be replaced by someone else representing consumers or by a representative of small business. As for Sir Leslie Murphy, he would prefer to reappoint him for one more year.

The Prime Minister agreed that Mr. Shanks should not be reappointed, and suggested that he should be replaced by a woman representing retailing and/or consumers. She suggested that Ms Daisy Hyams of Tesco would be an excellent choice. But she also thought that small business ought to be represented, and suggested that a small business representative should replace Sir Leslie Murphy - rather than keeping him on for a further year. The Chancellor said that he would consider this possibility further in consultation with Sir Keith Joseph - as well as the Prime Minister's proposal for a replacement for Mr. Shanks.

Yours faithfully,

Tim Laker.

M.A. Hall, Esq.,  
HM Treasury.

TKM

Econ PSI  
NEDC

Meeting extract PM/chancellor 4.10.79 at 9.00am

v. They discussed membership of the NEDC. My letter of today's date to the Treasury records their conclusions.

Subject file  
Econ PSI Consultation with  
IMF



PA 13  
PRIME MINISTER

Elon PSJ  
NEDC  
c. Mr. Hoskyns  
Mr. Wolfson

Meeting with the Chancellor - Thursday 4 October

The Chancellor will no doubt want to report on the Commonwealth Finance Ministers and IMF/World Bank meetings. Nothing of much significance appears to have happened at either of these meetings. I attach the communique of the Interim Committee. The one significant initiative which the Committee considered was the idea of a Substitution Account: this is the proposal that Central Banks should deposit excess dollar holdings with the IMF and receive in return bonds denominated in SDRs. The Americans and the Germans have been very keen on this proposal because it would take pressure off the dollar. I understand that the Chancellor is rather lukewarm no doubt because he is sceptical about the prospects for SDRs being fully accepted as an international currency. A number of problems remain to be resolved: the size of the Account, the rate of interest that would be paid on the bonds, and the question of exchange risk. The Interim Committee have asked the IMF to do further work on the Account, and report back.

press release  
in this folder  
The world economic assessment which has emerged from speeches in Belgrade is predictably gloomy. Mr McNamara has also, as his wont, been emphasising the plight of the world's poorest - and lambasting the USA in particular for their aid policies.

The Chancellor may also raise with you the question of NEDC membership. Three members - Lord Roll, Mr Michael Shanks, and Sir Leslie Murphy - are coming up for renewal. The Chancellor wants to replace Lord Roll by the Governor of the Bank: this seems very sensible given the intention to build the NEDC up a little (rather than pursue the idea of a separate Economic Forum). Michael Shanks (who represents the consumer interest) has not been an effective member, and the Chancellor wants to replace him - I think with a representative of small business. I think small business should be represented, but so too should consumers - even though Shanks may not be the best person. But if Shanks or someone else represents consumers (Why not a woman? There are none on NEDC at present), there may be a problem in bringing in

a small business representative. One possibility would be for such a representative to replace Leslie Murphy; but I understand the Chancellor wants to keep Murphy on for one more year. The other options are: either to increase the total numbers (but there isn't room round the NEDC table!), or to ask the CBI to give up one of their six places, or to replace Charles Villiers if and when he goes from British Steel (and not to appoint his successor to NEDC).

I have asked the Treasury for advice on when you should take the chair at the NELC. It seems to me that you should do this before long - the general economic discussion which is planned in lieu of the Economic Forum would be a good opportunity. You might press the Chancellor on when this particular meeting is to take place: if it is to have any influence on trade union thinking this winter, it really ought to be no later than December. E decided the meeting should be in December, but the Treasury is showing signs of wanting to put it off.

#### Other Issues

- i) The Chancellor may want to come back to you on enterprise zones. You have said that he must not announce this proposal at Blackpool - quite rightly since the idea is not fully worked out yet, and Jim Prior is far from happy.
- ii) Exchange Control. I have suggested that the Chancellor should come and discuss his proposal for a further package when he has something in writing - probably the week after next.
- iii) Mortgage Rates. The present position is that the building societies will increase the mortgage rate from  $11\frac{1}{2}$  per cent to  $12\frac{1}{2}$  per cent from 1 January unless competing interest rates fall back significantly in the meantime. The grossed-up investors rate was put up from  $11\frac{1}{2}$  per cent to  $12\frac{1}{2}$  per cent in August, and the local authority three-month rate - which is the main competing rate - is currently  $14\frac{1}{2}$  per cent. To prevent an increase in the mortgage rate, the local authority rate would need

/to come down



to come down to 12 per cent as a maximum - and probably lower. Only in these circumstances would the building societies be prepared to roll back the investors rate to 11½ per cent - which is what they would have to do for the mortgage rate to stay where it is and for them to cover their costs. (At present, of course, with the mortgage rate lower than the investors rate they are operating at a loss.) The building societies are beginning to send out notices confirming that the mortgage rate will go up in January. They could send out further notices reversing this if interest rates did come down; but they would need a firm indication of lower interest rates by the end of November if they were to do this - since they need to give a month's notice to investors if there is to be any change in the investors rate.

It seems increasingly unlikely that we will achieve the necessary fall in interest rates in time. Indeed, there could be pressure for a still higher mortgage rate than 12½ per cent. For if the present disparity between the three-month rate and the building society investors rate continues, it is unlikely that the building societies will be able to attract enough funds to continue lending at what they and the building industry consider to be a desirable level. The August building society figures show a net inflow of just under £300 million - which is well up on the previous two months' figures, but about £100 million less than what DOE consider to be necessary if their lending is to continue at the present level.

When we considered all this in July, you asked for a contingency plan to be drawn up for either providing building societies with a subsidy, or loans which would be repaid during the current Financial Year. The Chancellor was strongly against any such scheme because of its public expenditure implications, and

/ because it

because it would look like a "U-turn" on monetary policy. In addition, the building societies chairman (Leonard Williams) told Mr. Heseltine and Mr. Lawson that they would not be willing to accept a loan or interest rates subsidy scheme. I understand that these schemes are "on the stocks", and could be readily activated; but despite the political difficulties of the 12½ per cent mortgage rate coming through in January, I think the objections to either of these schemes are very great.

Are you content for action on these schemes to be stood down? Or do you want to retain the option of introducing one or other of them? If the latter, I suggest you should mention this to the Chancellor now.

12.

3 October 1979

Subject file  
Elon PD  
Consultation with MF



1, IRL 2, ~~ES~~



# National Economic Development Council

## DATES OF COUNCIL MEETINGS

### Note by the Secretary

The following dates have been arranged for meetings from  
January 1980 to December 1980:

#### 1980

JANUARY	Wednesday	9 January ( <u>3.00pm</u> )
FEBRUARY	Wednesday	6 February
MARCH	Wednesday	5 March
APRIL	Wednesday	2 April
MAY	Wednesday	7 May
JUNE	Wednesday	4 June
JULY	Wednesday	2 July
AUGUST	Wednesday	6 August
SEPTEMBER	No meeting	
OCTOBER	Monday	6 October
NOVEMBER	Wednesday	5 November
DECEMBER	Wednesday	3 December

Meetings will begin at 10.00am unless otherwise stated.

T U Burgner  
3 October 1979

National Economic Development Office  
Millbank Tower  
Millbank  
London SW1P 4QX

Caroline -  
Can you put  
this in the diary  
with a question  
mark?

✓ 8.5/10.12  
↓

## Published Papers

The following published paper(s) enclosed on this file have been removed and destroyed. Copies may be found elsewhere in The National Archives.

"Employment and Technology": report  
by TUC General Council to the 1979  
Congress  
Published September 1979

Signed M. Wayland Date 24 October 2009

PREM Records Team



CONFIDENTIAL



10 DOWNING STREET

*From the Private Secretary*

20 June 1979

The Prime Minister has considered the Chancellor of the Exchequer's minute of 19 June about Ministerial membership of the NEDC. She agrees that the Secretary of State for Energy should become a regular member of the Council; she would prefer to keep open for the moment the possibility of further Ministerial members.

A.M.W Battishill, Esq.,  
HM Treasury.

CONFIDENTIAL





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not more than six attended at one time. They included, in addition to the basic four mentioned above, the Secretaries of State for Energy and for Prices and Consumer Protection, and the Chancellor of the Duchy of Lancaster (who of course no longer has economic responsibilities).

5. I think it would be right now to invite the Secretary of State for Energy to be a regular member of the Council because of the prominence of energy questions in the economic scene and in view of his responsibility for important nationalised industries.

6. It could also be helpful to have the Secretary of State for the Environment because of his responsibilities for the construction industry and the significance of many of his activities from an industrial point of view. The Minister of Agriculture is also a possibility. But we could perhaps retain flexibility by not at the moment filling more than one seat - beyond the basic four.

G.H.

(GEOFFREY HOWE)

19 June, 1979

CONFIDENTIAL





PRIME MINISTER

MEETING OF NEDC ON 6 JUNE

I understand that the Chancellor spoke to you about the meeting of NEDC on 6 June. It is his intention to take the chair at least at the beginning of this meeting - he would stay for the first two items: an oral presentation of NEDO's work programme by the NEDO chairman and an industrial scenario paper by NEDO. The third item on the agenda, which the Chancellor would not stay for, is a paper by Mr. Prior on the performance of the engineering construction industry.

The question arises: who should take the chair after the Chancellor leaves. Apart from Sir Geoffrey himself, the Government have six places on the Council. These would naturally go to Sir Keith Joseph, Mr. Nott, Mr. Howell, Mr. Prior and two others. Under the previous administration, the Chancellor of the Duchy (Mr. Lever) and Mr. Hattersley filled these two places; but of course we do not have these additional "economic" Ministers. No doubt Sir Geoffrey will put forward names - Mr. Walker would be an obvious possibility since NEDO covers the food processing industries.

Sir Geoffrey has suggested either Mr. Prior or Sir Keith Joseph should take the chair after he leaves, and effectively be Deputy Chairman thereafter. It seems to me that Sir Keith would be the obvious choice. Do you agree? *Yes* not

I understand that you said that you might possibly want to attend the 6 June meeting yourself. The Treasury do not recommend this. They think it would be much better for you to attend a meeting

/ in a few

*Economic Policy*  
*note to Mr. Prior*  
*TL*  
*10/5*

in a few months time when the Government's position on NEDC etc is clearer and when we may want to give a political push to NEDO's work. (Although you obviously do not have to follow precedent, Mr. Callaghan used to attend the February meeting of the Council which reviewed the previous year's work and set guidelines for the coming year, and usually one other meeting during the year.)

R.

The Chancellor & I spoke last night,  
We agreed I should not go.  
Sir Keith will take the chair after.  
S.P. has gone  
ant.

15 May 1979



# END

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