

Rt Hon Margaret Thatcher

R21

With the compliments of

● LORD HARRIS of High Cross

Dear Prime Minister, 19th December 84

My co-signatories asked me to send  
you the first copy. Alas The Times  
threatens to jump the gun.

Of course, we are trying to  
help against common foes.

Best possible wishes for 1985, etc.

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Lord Harris



Pine M...  
21/12

Open Letter to the Prime Minister

With the New Year approaching, we send you our best wishes for the completion of the task that has been so bravely begun.

After decades of progressive enfeeblement which made us famous for the 'British Disease', the past five years have seen a transformation in the climate of economic opinion. It is now recognised that our 'full' employment was actually over-manning concealed by monetary debasement. The new realism which has brought inflation down from above 20% to 5% was bound to expose the extent of under-employed labour in the official statistics of the unemployed.

Unlike your critics, we acknowledge that the total of around 3 million ignores the turnover of about 500,000 people changing jobs every month and includes an unknown but large number working in the black economy. Nevertheless, involuntary unemployment inflicts avoidable suffering on many people and represents a loss of potentially productive resources. Accordingly, we believe our most urgent concern must now be with the obstacles that prevent so many unemployed people from finding employment.

When you and the Chancellor tell critics there is no easy lever to pull, we understand that you are rejecting the old myth that lasting jobs can be created simply by pumping still more public spending into the economy. We agree that would only lead to accelerating inflation and higher interest rates - both of which have damaging effects upon jobs. But we believe there are obstacles to employment which you have inherited from past governments and which should now be removed without fear of rekindling inflation.

① A major reason for our high level of unemployment is, simply, that unit labour costs in Britain have run ahead of productivity. In America, 38 million new jobs have been created in the past 20 years by holding the rise in real wages to 8%, whereas in Britain real wages have increased by 48% and we have lost 2 million jobs. Nearer to home, between 1976 and 1982, our labour costs per unit of output rose six times faster than in West Germany. No wonder America and West Germany have significantly lower unemployment rates. Yet the Chancellor's recent economic statement warns that UK unit labour costs are expected to continue to grow faster than our major competitors. If that is so, we might expect unemployment to rise still higher.

There are a number of reasons why the cost of labour in Britain continues to rise in spite of high unemployment. The first is the activities of trade unions which restrict efficiency and push wages above the market clearing rate. Short-sighted trade unionism is thus clearly a major cause of unemployment, particularly when national bargaining sets wages without adjustment for differing market conditions (and costs of living) in different parts of the country. Furthermore, in their insistence that jobs should be preserved whether or not an industry is profitable or there is a demand for its product (witness the miners' strike), they raise costs and taxes and so hinder the creation of new jobs in the industries and firms of the future. How would Lancashire cotton have encircled the world in the last century if some rustic Arthur Scargill had been able to preserve the handloom weavers in perpetuity?

We applaud the 1980, 1982, and 1984 Employment Acts, but consider that this legislation should be strengthened in two respects. Firstly, since unions derive most of their power in wage negotiations and strikes from the closed shop, we believe this monopoly device should be outlawed. And, secondly, to enable employers to estimate wage costs with some degree of confidence, we now urge that unions be subject, like all responsible bodies, to civil proceedings for damages caused by breach of contracts.



High labour costs and unresponsive relative wages are also caused by Britain's 26 wage councils which set minimum wages and conditions of work for two and three quarter million workers. They operate to reduce jobs for less productive workers, particularly young people. It is said that the International Labour Organisation's Convention 26 binds us to maintain machinery to enforce minimum rates of pay where "wages are exceptionally low", and so rules out their abolition. We disagree, since social security benefits in effect set a minimum floor to wages in the UK. The wage councils should be scrapped immediately.

High labour costs comprise more than wages. A whole spate of legislation such as Employment Protection, Health and Safety at Work, Equal Pay, etc., all impose obligations and costs on employers and need to be drastically pruned. Moreover, employers' national insurance contributions (nics) levied at 10.45% on wages between £1,768 and £13,000 per annum are a considerable additional cost. The Economist pointed out recently that if the minimum at which nics are paid were raised to £6,000, it would become 10% cheaper to employ the 40% of British workers with wages below that level. Since unemployment is concentrated amongst such workers, this reform would price many back into jobs.

Unemployment is determined not only by labour costs, but also by the monetary advantage of working compared with not working. Our tax-benefit system now decrees that for many people in low-paid jobs there is no advantage in taking a job. An unemployed person receiving various state benefits who manages to get work at £40 or more a week, automatically forfeits all benefits and pays national insurance at 9% and income tax at 30% on all earnings over £39 per week. A single householder living in local authority accommodation would need to earn at least £94 per week to be a mere 10% better off by working, whilst a man with four children would need to earn £189 to be £20 better off. So it is no wonder that many people deliberately opt for unemployment.

The Chancellor announced in his Autumn statement that he might have £1.5 billion for tax cuts in his next budget. We strongly support much higher tax cuts financed by radical reform of welfare on a more selective basis. All such savings should be concentrated on raising tax thresholds and perhaps re-introducing the lower-rate tax bands. An urgent priority is to eradicate this poverty trap and improve the rewards for working.

Finally, Prime Minister, it remains true that while parts of the country have very high unemployment, others have relatively little and, indeed, meet difficulties in recruiting some types of labour. In order to narrow such difference, workers must be prepared to move as in America, which now has much lower unemployment. The main explanation of Britain's low level of labour mobility is the large amount of council housing on the one hand, and the steep decline in privately-rented accommodation on the other. A study in Scotland, for instance, concluded that 25% of all moves to take up new jobs were frustrated because it would have meant leaving a council house with no guarantee of immediately getting another nearer to work, and with no privately-rented housing to provide temporary accommodation. The lesson is clear: in order to improve labour mobility the Government must speed up sales of council housing, reduce the 5-year qualifying period on re-sale, and take steps to revive the rented sector by freeing all new lets from rent control.

There is nothing inevitable about high levels of unemployment. If wage rates were sufficiently flexible, if there was a real reward for working at lower levels of earnings, and if labour were more mobile, the unemployed would be chiefly confined to people temporarily between jobs, those undergoing training or retraining, and those incapable of working.



We are confident you will maintain and even intensify pressures for cost reduction through efficiency, not least by further denationalisation, deregulation, and competitive contracting. If the results of your first five years are to bear full fruit in extending employment at realistic labour costs, we believe 1985 should see urgent action along all of these lines. The requirement is nothing less than the reversal of well-intentioned policies of past protectionism that have now become the chief impediment to more widely shared prosperity.

Lords Coleraine  
Harris of High Cross  
McFadzean of Kelvinside  
Montgomery of Alamein  
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Christopher Chope, MP  
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19 December 1984