



10 DOWNING STREET

From the Private Secretary

5 July 1983

*Dear Imogen,*

STRATEGY FOR UNEMPLOYMENT

The Prime Minister plans to hold meetings at Chequers on Tuesday 6 and Wednesday 7 September, to consider what the next steps should be in the Government's strategy for creating a more enterprising and prosperous British economy, and thus reversing the growth of unemployment.

The Prime Minister would be grateful if the Secretary of State for Education and Science would provide a paper for the discussion at Chequers under the following heading:

"How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangements for technical education?"

Mrs. Thatcher particularly hopes that the paper will avoid generality and will concentrate on the specific decisions which need to be taken.

I would be grateful if you would ensure that this paper is sent to the Prime Minister by Friday 26 August at the latest.

The Prime Minister has asked that this paper be produced by your Secretary of State and any of his colleagues or officials whom he decides to involve on a need-to-know basis, consulting only the Secretary of State for Employment and any officials in his Department nominated by him. She has also asked that the fact of the Chequers meetings be closely guarded, that this letter be seen by no-one but your Secretary of State and yourself, and that in commissioning the above paper, you do not disclose its occasion.

I enclose two notes by Alan Walters about recent academic work on unemployment, supplementary benefit and relative wages, to which reference was made at last week's Ministerial discussion; and a wide-ranging note which the Prime Minister believes will also form a useful background to the Chequers discussions.

*Yours sincerely,  
Michael Scholten*

Mrs. Imogen Wilde,  
Department of Education and Science.

## PAPER BY THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE

1. "How can the efforts of schools, higher education, the MSC and industry be best deployed to give workers and managers the skills and enterprising approach they require? Should we, for example, shift support of first degree students from the mandatory grant system to employers' sponsorships? How can we best give teachers a better insight into the requirements for success in industry and commerce? What extensions are required to the present arrangement for technical education?"
2. These are the questions my paper is required to answer.

General

3. One general factor affects all the areas concerned: it affects nearly all aspects of British society. It is the widespread ignorance of the economic facts of life in a free society.
4. It is this ignorance that pervades most newspapers and, I believe, television coverage and comments. Few people seem to realise that we are in general a relatively low productivity society - and that consequently our resources are, compared with what they might be and what they are in Western Europe, relatively low.
5. Few people realise that jobs in the trading sector come from customers and that the number of people employed in the public sector is limited by what the trading sector can afford.
6. So the prime task, I believe, necessary to jolt the world of education in particular as well as the country in general is to secure greater understanding of economic realities. The initiative taken by Nigel Lawson at the August meeting of NEDO to produce a paper on where jobs come from will be a milestone in public awareness.

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7. Certainly there are initiatives for the world of education to provide the basic skills and attitudes required: I set them out below - some we are taking already and will be taking: and some can be taken as part of the policy proposed in this paper. But we cannot, in my view, as things are - that is, without raising the general level of understanding - rely upon the teachers to present economic realities. The teachers, as things are, don't understand these realities: nor, as things are, do those who teach teachers: nor do the papers they tend to read.

So I propose parallel lines of action:

- a. in the world of education: and
- b. a general effort to secure greater understanding of the economic facts of life either directed to the world of education, necessarily overheard by the country, or directed to the country as a whole, necessarily overheard by the world of education.

8. I suggest in Annex I the essential minimum of these economic realities .

9. Against this background I now set out

- a. what we are or will be doing that is relevant to this paper in schools, further education and teacher-training;
- b. what as part of the policy here proposed we could do; and
- c. what we should do that is relevant to universities and polytechnics.

10. Schools, further education and teacher-training

a. What we are doing or will be doing:

- i. The new technical education pilot schemes start this September with an already announced extension to

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start next September. Our aim should be to get technical education as an element in the curriculum of all secondary schools. Some extra resources will be needed.

ii. We are trying to make the curriculum more practical so as to enable pupils to see the relevance of what they learn: this effort includes pilot schemes for the non-academic - starting this September.

iii. We are discovering what employers need which in many cases they try to define only in terms of examination results.

iv. We shall be asking the new Secondary Examinations Council and the new Curriculum Development Committee to consider how best to introduce economic understanding into the curriculum.

v. We shall ask HMI to monitor the extent to which broadly valid economic perceptions enter into teaching.

vi. We will be using existing powers to encourage attention to economic realities in the very much more rigorous teacher training framework of our 1983 White Paper.

vii. Selection of candidates for teacher-training will encourage those who get some experiences before training to be teachers.

viii. We shall encourage an increase in teacher secondment to local business.

ix. We are surveying in order to improve the responsiveness of further education to employers' needs.

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x. There is under discussion a proposal to stimulate more effective service to business needs in colleges of further education by giving a new National Training Body some leverage on some of their courses. Such leverage could require courses to contain basic economic education.

xi. Young Enterprise introduces school pupils to business experience. Their aim is to have given 10 per cent of school leavers experience of a business group before they leave school by the end of the decade. They are expanding fast. They are probably about one-third of the way to their target. They - fiercely! - want no help from Government. There are other - less effective - operations. Our campaign would probably stimulate new ventures.

b. What we could do in parallel with a campaign to raise economic understanding:

i. Education Ministers could encourage private organisations to give large prizes to schools and colleges submitting coherent and valid answers to general questions such as "where do jobs come from?", "what causes growth?" and the like.

#### 11. Universities and Polytechnics

- i. Higher education is so dependent upon the tax payer and so remote from economic realities that universities and polytechnics are apt to reinforce unreality in economic affairs. The need is to steer staff and students to a greater understanding by reducing their present reliance upon the public purse.
- ii. In early October this year officials will give DES Ministers a set of options responding to requests from

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DES Ministers. These options will cover ways of reducing over time taxpayer funds for higher education and ways of fostering sponsorship and other methods of help for students. Such trends will encourage students to appraise more realistically the subjects they choose and the effectiveness of the courses they are offered: encourage universities and polytechnics to satisfy business and private donors that they should give them endowments or research projects: encourage businesses to sponsor students and encourage higher education to consider in some cases more effective use of time.

- iii. I hope to put proposals to colleagues by the end of this year.

12. I turn now to the effort to raise economic understanding whether directed to the world of education in particular or to the country in general. Perhaps we should take advice on how most effectively to present the analysis. Subject to such advice I suggest:

- i. a suitable economist should be invited to write an explanation of the main economic relationships - for wide distribution.
- ii. Antony Jay should be asked to make explanatory television films - probably with private rather than public money.
- iii. We should consider systematic Ministerial speeches.

13. I do not believe that we can have much effect on schools without a general increase in economic understanding. Universities and polytechnics are easier to influence because we can, as is intended, edge them in part towards the market. The advantage however of the educational campaign proposed - which is designed to influence schools - is that it will be widely heard and, if well done, absorbed.

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## 14. Decisions to be taken.

- i. Should a systematic effort be made to increase economic understanding? If so, should it be aimed at the country in general or education in particular? (Sub-questions are in para 12).
- ii. Should we edge higher education in part towards the market - options to be proposed before end of the year?
- iii. Should we, in addition to the steps listed in para 10(a) encourage large prizes from private sources as proposed in 10(b).

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## ANNEX I

## Themes of effort to raise economic undertaking

(a) "Growth" - including voluntary leisure - depends upon rising average productivity. We are less prosperous than the Americans, the French, the Dutch, the West Germans, the Japanese etc because on average each of them produces substantially more in goods and services than we do - see table attached from a 1982 NIESR review. (Blame any combination you wish of past Governments, of managements, of trade unions.)

The first thesis is therefore that growth comes from rising average productivity. - *Provided the goods or services can be sold.*

(b) Public services generally exist to provide services which the public want which either unavoidably or because we have so decided are financed publicly. Because consumers do not pay at point of use and because of political pressures there is a danger that the cost of public services will overload what the trading sector - which directly or indirectly bears most of the cost - can afford. There needs therefore to be a balance between the cost of the public sector - including all the public and social services on the one hand (necessary as most of them are to society as a whole, to individuals and to the trading sector) and the capacity of the trading sector to bear the large majority of the cost that falls directly or indirectly upon it.

So the second thesis is not to allow the cost of public services to overload the trading base.

(c) An understanding of the relationship between British people as producers of goods and services on the one hand and the same people plus their dependants as consumers on the other hand. To the extent that British people as consumers plus consumers abroad choose to buy the goods and services made by British people as producers then British jobs and British public and social services will suffer or benefit.

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So the third thesis is that jobs and social services - even jobs in the public services - come from customers at home and abroad.

(d) But who identifies what customers want? The entrepreneur - who is therefore crucial - in existing and new businesses: and he/she needs good managers and adaptable co-operative workers who understand that satisfying customers at a profit is intensely in their own interest.

So the fourth thesis is that multitudes of entrepreneurs and profitably competitive businesses are essential to more jobs and growth and more public services - and that monopolies are for many reasons undesirable.

Of course within the framework for a free society of these four theses there will be argument on many issues of values and priorities - but the four theses represent inescapable relationships.

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reliable is our knowledge of international productivity differences? This question should not be brushed aside for, not only are there difficulties with the underlying source material (as illustrated above), but there are also serious questions of principle in how to weight the various sectors of the economy in arriving at a combined estimate for the economy as a whole. This is a form of the classical 'index number problem', which becomes increasingly severe in practice the greater the gap between the countries compared in real income level and in economic structure<sup>(1)</sup>. For example, the US is particularly efficient in producing cars which are sold there cheaply in relation to other goods, while Britain is particularly inefficient in producing cars and they are relatively expensive here; consequently, if we use UK values to weight the productivity difference in that industry and similarly in other industries, a US/UK comparison for the economy as a whole would tend to show the US in a more favourable light than if we used US values. From the alternative calculations in the articles below, it appears that the measured gap in output per employee for GDP or manufacturing as a whole might vary by a tenth, or even by two-tenths, depending on which country's values are used. The use of 'multi-national' weights, which bring in a number of other countries aside from the two directly compared, raises yet further issues. Without going here into these matters of principle, it is worth keeping in mind the size of this unavoidable 'margin of uncertainty' both in making statements about relative productivities, and in deciding how far it is worth going in attempting to improve the accuracy of the underlying observations and calculations.

Taking output per employee in the UK in 1980 as 100 the following few figures, extracted from the many in the papers below, can perhaps be taken as indicative of the central findings.

	GDP per head of population	Output per employee in	
		Total GDP	Manufacturing
Britain ..	100	100	100
Germany ..	132-134	134-140	152-163
US ..	153-186	159-201	276-302
France ..	134-138	150	180
Belgium ..	115-132	140	180
Netherlands	102-114	150	230
Italy ..	84-88	110	150
Japan ..	113-112	105	200

Source: GDP per head of population from Kravis *et al.* for 1975, brought forward using OECD sources on changes in real GDP and population. The comparisons of productivity with Germany and the US are taken from Smith *et al.* and give the results of alternative bilateral weights; the other countries are from Roy, using multi-national weights, and rounded to indicate that the results are approximate.

Looking at the first two columns we see how differences in output per head of population, which determines the 'standard of living', are related to differences in output per employee (the two measures differ because of variations in the proportion of the population at work; but there are also differences in statistical method). A comparison of the last two columns shows the dominating importance of differences in manufacturing productivity, and how severe the British shortfall had become by 1980. Even if we add 10 per cent for the exceptional rise in UK manufacturing productivity in 1980-81, it looks as though another 50 per cent—if not more—is necessary to bring us to European levels.<sup>(2)</sup>

Besides examining measures based essentially on quantitative indicators of output, it is necessary to consider indicators of the quality of UK manufactured goods, though this clearly presents even greater difficulties. The article by Mr Katrak attempts to cast light on one important qualitative

<sup>(1)</sup>The conceptual problems relating to index numbers of labour productivity are a little more complex than might be assumed from theoretical discussions of the usual 'index number problem' in consumption theory. The direct (economic) question that we might ask is this: as compared with Britain's actual total labour force, how many employees would be needed to produce Britain's output (distributed amongst the various industries as it actually was in a particular year), if output per employee in each industry were the same as in the US? The ratio of these two totals provides an index of relative labour productivity for the economy as a whole. Curiously enough, this is equivalent to a weighted harmonic mean of the productivity-ratios for the individual industries; it differs from the customary approach of simply comparing total GDP at fixed prices in the two countries with their total labour forces. For fuller discussion see G. J. A. Mensink, 'Comparisons of labour productivity in the United Kingdom and the Netherlands', 1958, *Statistical Studies No. 18* (Netherlands Central Bureau of Statistics, 1966), and the forthcoming National Institute study by A. D. Smith, D. M. W. N. Hitchens and S. W. Davies (Cambridge 1982).

<sup>(2)</sup>A technical point on the alternative estimates is worth footnoting. For Germany and the US it is possible to compare the estimates derived from expenditure statistics (by Kravis *et al.*) with those derived from production statistics (by Smith *et al.*); and these seem broadly consistent. A set of estimates prepared by the Statistical Office of the European Communities for 1975 based on the expenditure approach also yielded broadly consistent results for the countries covered. That cannot however be said of the most recent estimates derived—also on the expenditure approach—by the SOEC for 1980; details of the method used have so far not been published: all that is available are the bare results published by HMSO in *Economic Trends* (for April 1982), reproduced from a recent OECD publication. The main difference is that Britain's GDP per head is shown some 10 per cent higher than implied by previous estimates. A full account of SOEC's methods is awaited with interest. It is however known that, in forming its multinational weights, SOEC gives equal importance to each country (whereas the study by Kravis, *et al.*, gives more importance to a large than to a small country—a preferable procedure in our view); prices for the SOEC comparisons are collected only in the capital cities of each country, and some adjustment was made to allow for lower prices in the provinces.