

PRIME MINISTER

Employment/Unemployment

Following your meeting at Chequers a number of pieces have been sent in.

I Enterprise Allowance - Annex A

Tom King has now written to the Treasury, seeking agreement to an extension of the Enterprise Allowance scheme in order to allow it to meet demand. This will not be resolved before Monday.

II Position of Young People in the Labour Market - Annex B

The Manpower Services Commission have sent in notes which show the following:

- (a) jobs for 16 year olds, inside and outside the YTS, have increased by about 50,000 over the corresponding level a year earlier;
- (b) unemployment among school leavers under 18 has fallen by 17,000 over the past year;
- (c) total unemployment among under 18s has also fallen by 17,000.
- (d) earnings of employees under 21 have fallen by up to 5 percentage points as a percentage of full-time adult earnings.

III Paper from Professor Peacock - Annex C

Alan Peacock has sent in a note setting out the arguments and the evidence on why a shorter working week is no solution to the problem of unemployment. Even if you are unable to deploy this on Panorama, there will no doubt be other opportunities.

IV Papers from Sir Douglas Hague - Annex D

Sir Douglas has sent a copy of his Mond lecture given in March this year. You might like to look at two sections, pages 3-7 in which he discusses the future of work; and pages 15-17 in which he discusses the ABRC. The latter section will be relevant to the discussion you are having in early May with Sir Keith Joseph and Sir David Phillips on priorities in the science budget. As you will see, Sir Douglas is not impressed with the present arrangements. In his view, the ABRC is not clear on whether its role is to promote science or to be an arbiter on the allocation of scarce resources in the science budget.

On the future of work, Sir Douglas has drawn on the work of Dr. Gershuny. They argue the need to break away from the stereotype of work which is:

- a male manual worker
- goes to work in a large factory
- makes something tangible
- works a 40 hour week plus some overtime
- belongs to a union and possibly a closed shop

Sir Douglas argues that all these facets are becoming less and less true.

- there is an increasing proportion of women in the labour force, from 31% in 1961 to 40% in 1981. The proportion of manual workers has fallen from 62% to 50%.
- The trend towards working in large units is being reversed and will be accelerated as information technology permits greater de-centralisation.
- Employment in the manufacturing sector has declined from 38% in 1961 to 27% in 1983.
- There is an increasing proportion of part-time working particularly among women but also among men.
- Trade union membership is in decline. The trend of

the 1960s and 1970s towards increased trade union membership and increased coverage of closed shops has now been reversed.

Sir Douglas draws attention to the tendency or necessity to work in the official economy is in decline. The official economy is in competition not just with the black economy but with the domestic economy. The growth of consumer durables such as washing machines and vacuum cleaners means people can undertake more tasks themselves; the car provides personal mobility and less reliance on public transport; televisions and video provide more home entertainment; the computer and telephone will increase opportunities for working at home, receiving education at home and shopping from home.

You could deploy these ideas on Panorama by arguing that we must break away from old stereotypes of the labour market. Unemployment is not cyclical. It is not due to a fall in demand and new jobs will come not from boosting demand to allow people to return to their old jobs. There is a process of massive transition. We must look forward to new styles of working rather than turning back the clock. While this process is generating high unemployment now it is opening up huge opportunities for the future.

AT

6 April 1984

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D.I.

ARTICLE ON THE FUTURE OF WORK - DOUGLAS HAGUE

I have already found my book of the year - Social Innovation and the Division of Labour by Jonathan Gershuny, of the Science Policy Research Unit at Sussex University. It puts important developments in the structure of activity in Britain into a new perspective and has certainly advanced my own thinking.

We can divide types of occupation in a developed economy like ours into two kinds. The most important is formal employment where we join an employer for a salary or wage. This is "work", and we rightly worry over the unemployed because they are without "work".

There are also informal occupations - many of them unpaid. There is community service - "voluntary work". There is the underground or "black" economy - where those who operate in it keep out of the formal economy, frequently to avoid tax.

But much the biggest part of the informal economy is made up of households and Gershuny's contribution to reinterpret their role.

One oddity of economists is the way they regard relative prices. In their early stages, most economics courses and text books give considerable prominence to the role of relative prices. Students endlessly write essays on topics like the effect which a rise in the price of beef - relative to that of lamb - will have on the demand for lamb. In the rest of an economist's training and once that training is over, relative prices are largely forgotten. The big increases in the price of energy in the 1970's led to a flutter of interest in relative prices, with inflation now lower, that interest has largely evaporated.

Gershuny points to one example of the importance of relative prices, by noting their role in determining the amount of informal activity undertaken by the household.

There is a general consensus among economists that, over time, services are likely to become more expensive relative to goods. This is mainly because, at least until recently, it was more difficult to mechanise services than goods. Gershuny argues that the consequence has been a shift away from the purchase of final services by those in employment to the purchase of consumer durables - effectively capital equipment - by the household. We buy lawnmowers instead of employing gardeners; vacuum cleaners and washing machines instead of employing domestic servants; cars instead of travelling by train or bus.

This has had two results. The demand for consumer durables has been a major cause of rising output and employment in manufacturing over the last twenty years. Simultaneously, employment and/or pay in service industries have been less than they might have been.

There is also a more complicated point. Economists put great emphasis on what they call "opportunity cost". It is sometimes not possible to give a direct measure of a cost. The cost of a missing spare part may not be what the supplier charges to replace it: it may be the value of the output foregone before the spare can be replaced.

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Similarly, it may seem that the cost to the householder of using consumer durables is zero. Members of the family are not normally paid for what they do, or only a pittance. That must be why we choose to use our own "free" labour rather than labour employed in service industries.

An economist would bring in opportunity costs. The cost of a day spent working in the house is not zero - but the income that could have been earned from spending a day at work. Tax also has to be taken into account. Rather than pay £30 to a handyman, I may stay at home to do the job myself and forego £30 of income. To me, however, that £30 is gross. After tax, the net cost will be not £30, say, but £20.

There are therefore two factors at work, not one. A rise in the cost of services provided by those in formal employment will increase the amount of work done at home. But so will an increase in tax rates: it will move some work carried out by those in formal employment in service industries back into the household. It may also move some work into the "black" economy.

I remember vividly how the family of that doyen of financial journalists Harold Wincott disparaged his prowess as a handyman. "Send for a proper man", they used to say. The problem is that a proportion of those who do send for a "proper man" then find him expensive. So they collude and make a payment in cash - in order to keep the "proper man's" price down.

Gershuny's analysis therefore throws light on four important economic phenomena. It explains: the strength of the demand for consumer durables since the war; the apparent slowness in the growth of the service sector; the downward pressure on wages in that sector; and the development of the informal economy - both legitimate and "black".

Perhaps this, as much as any characteristic of labour markets or labour forces, explains the growth of part-time employment in recent years. A full-time employee can rarely adjust the hours he works or the money he earns in the way I have described. Provided more than one person works, the household can. It can adjust work and pay by manipulating part-time employment.

Gershuny's argument is striking and helpful. It emphasises the complexity of the contemporary economy as well as the forces that have led to the growth of informal employment.

It also points up one of my own concerns - the impact of productivity growth in the public sector which is slower than in the private sector.

Gershuny's argument is that if lagging productivity in a private sector service makes it expensive, households take over at least some of its production. In the public sector, however, the way that we organise the provision of services makes that response impossible.

Low productivity in the public sector, unless accompanied by low pay, increases costs and keeps up tax rates. But, having paid our taxes, we obtain most public sector services "free". There is no pressure on the household to provide the service for itself. In the public sector, the pressure to keep down the cost of providing services is shifted from the household to the government. There is no fall in the demand by individuals

for public sector services as their cost increases. Having spent several years now worrying over the problem of public expenditure I am grateful to Dr Gershuny for showing me one reason why I am right to be anxious.

He also compels me to raise what many people will regard as a quite shocking policy suggestion. Public debate rumbles on over the need for private as well as public provision of, for example, health care and education. But when we say private, we mean private activity by those in formal employment.

In health care, however, it will not be long before a home computer can perform the initial diagnosis on a patient. It could then direct him either to an appropriate medical or para-medical specialist. Or it could tell him which drugs to buy from the chemist, thus replacing part of the work of the General Practitioner. Gershuny suggests that "perhaps half of those who currently visit the GP would not need then to do so". There would be a corresponding reduction in public expenditure.

Similarly, it will not be long before the development of television, videos and computers reaches a point where all university students - not simply those of the Open University - could work largely from home. Should not all universities be working to become at least as open as the Open University, with a corresponding saving in public expenditure. This will be particularly difficult for universities. It is hard for those who have spent a lifetime perfecting their lecturing technique, to recognise that formal lecturing may become as obsolete under the impact of television and computers as the Amateur Dramatic Society did with competition from the cinema and television.

These impacts of the information revolution no longer lie in the distant future. They are almost here. Given the time which it takes British public debate to reach sensible conclusions on such radical propositions, debate should start now.

DH

16 March 1984