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CONFIDENTIAL

Prime Minister

MR ALEXANDER

cc Sir R Armstrong  
Mr Elliott  
Mr Goodenough

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(The other pages are  
background notes.)  
Mint - 6/3

EUROPEAN COUNCIL 23/24 MARCH 1981: UNEMPLOYMENT

1. When the Prime Minister visited Mr van Agt in The Hague on 6 February, there was some discussion about what the Heads of Government could say about the problem of unemployment at the next European Council (Maastricht, 23/24 March). The Prime Minister promised Mr van Agt that she would think about the subject to see whether we could be of some help.
2. We have now prepared, in consultation with Treasury, Foreign and Commonwealth Office and the Departments of Employment and Industry the enclosed draft passage which we might put to the Dutch for possible inclusion in the Presidency Conclusions of the Council, together with some background notes which are not intended for circulation but have been drafted as a possible quarry on which the Dutch might draw.
3. I should be grateful to know whether the Prime Minister is content that these texts should be given to the Dutch. If so, we would propose also to show copies informally to Mr Ivor Richard, the responsible Commissioner.

*Handwritten signature*

M D M FRANKLIN  
CABINET OFFICE SW1  
5 MARCH 1981

UNEMPLOYMENT : POINTS FOR EUROPEAN COUNCIL PRESIDENCY CONCLUSIONS

1. There is no easy way for the Community to conquer unemployment.

Controlling inflation is an essential condition for sustainable growth of output and employment in the Community in the period ahead. Without that, our industry and commerce will find it harder to compete and so to create the jobs that are needed.

2. To promote employment we need particularly to move into the new high technology industries and to apply high technology to improving the efficiency of existing industries. The Council accordingly asks the Commission, drawing on the useful work already in hand for the Standing Employment Committee, to propose ways in which this process can be assisted and accelerated within the Community, including the use of measures to ease the structural changes in the labour market which must accompany it. *This means that both fiscal and monetary policy will have to continue to reflect the need to bring down inflation.*

3. The Council supports the use of ~~appropriate~~ measures which assist the transition by helping those areas and groups in the Community which are particularly badly hit by unemployment. In this respect, the Council is particularly concerned at the problems caused by declining employment in traditional industries in various regions of the Community. Particular importance is attached to mitigating the social effects of restructuring in the steel and shipbuilding industries. It accordingly invites the Commission to pay special attention to these problems, particularly in formulating its proposals for revision of the European Social Fund and the European Regional Development Fund.

## UNEMPLOYMENT

### EXPLANATION OF UNITED KINGDOM APPROACH

1. The current level of unemployment must be central to any consideration of the economic situation in the Community. In January 1981 it reached 7½% of the active population (ie some 8½ million people) compared with 4.3% in 1975 and 2% in 1970. This represents a serious waste of human resources and imposes a severe burden in terms of human suffering and loss of dignity on those affected. The problem is worse because it is concentrated on particular social groups, notably the young, and in certain areas of the Community, particularly those dominated by declining industries.

2. This high level of unemployment is the result of the serious underlying problems that today afflict the Community's economy: the world economic recession, inflation, low levels of investment, slow growth in productivity, poor competitiveness and a high level of dependence on imported high cost energy. The two massive increases in oil prices in the last decade have rendered obsolete a substantial proportion of the capital equipment of the industrialised countries and of the Community countries in particular. Europe needs to replace this equipment and also to invest in new forms of energy production. The future standard of living of the Community and the level of employment that we will be able to sustain without excessive inflation will depend on the ability of the European countries to meet these investment needs, to adapt to changing conditions of employment and to equip ourselves with new skills.

3. These underlying problems must be successfully tackled if we are to secure a lasting reduction in unemployment. Employment measures which assist the transition are to be welcomed, but such measures must avoid

6. In world economic conditions where newly industrialising countries are competing effectively in basic manufactured products and where competition between advanced industrialised countries becomes more severe, the companies and sectors most capable of survival will be those with:-

- (a) control of rapidly advancing technology;
- (b) adequate professional and technical management and highly-skilled labour;
- (c) highly sophisticated and adaptable manufacturing, selling and distribution systems which can respond quickly to changing consumer preferences in markets throughout the world.

High technology is an ingredient in most of these factors and it is this which needs to be developed within the Community.

7. Structural changes on the scale that are taking place inevitably create serious social and employment problems. These are particularly acute in areas of the Community where there is a concentration of declining industries such as steel and shipbuilding, and particularly for certain groups, notably young people seeking their first jobs in such areas. The Community already has in the Social and Regional Funds instruments which can play a part in dealing with these problems by providing support for training and retraining and for new productive and infrastructure investment. In the current situation it is essential that a higher priority is given to these particular problems in the administration of these and other Community instruments and in the forthcoming reviews of their activities.

worsening competitiveness. Otherwise they lead to a loss of output to overseas competitors and the reduction in unemployment is not then sustainable. For our competitors will not stand still. New processes and techniques will continue to be developed and used outside the Community and the newly industrialised countries will become increasingly competitive in basic manufactured products. Unless we allow the structure of our industry to adapt to meet these challenges, still more jobs will be lost in the future.

4. These dangers are illustrated by the proposals that a number of organisations have made for a general reduction in the working week. But if, as is likely, this leads to an increase in unit labour costs, the effect is to exacerbate inflation, reduce competitiveness and depress unemployment in due course. Moreover, circumstances vary widely and to impose a uniform reduction in the working week throughout the Community would not take account of what individual firms could afford and could organise efficiently. This is not, of course, to say that other special employment measures particularly directed to helping groups worst affected by the recession might not have a part to play in relieving unemployment.

5. A lasting reduction in unemployment requires the creation of conditions for sustainable growth and these can only be achieved if inflation is brought down. A high level of inflation in the industrial countries could invite more oil price increases. But inflation also destroys the framework for business confidence and the basis for investment decisions. It upsets relative pricing, endlessly absorbs effort in adjusting to new price and wage levels and often squeezes profits in favour of wages. It has powerful direct and indirect effects on the profitability of industry and on its international competitiveness. Inflation is thus the enemy of unemployment, economic growth and structural adjustment.