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Prime Minister ①

Shall I ask Mr Tebbit for a note on what should be done?

MCS 29/9

Yes please

PRIME MINISTER

WAGES, FALLING INFLATION AND EMPLOYMENT PROTECTION

Since the rate of inflation is now falling rapidly, it is becoming increasingly important that firms and Government Agencies are not inhibited from cutting money wages. Reductions in wages have already occurred extensively in the United States (eg Pan Am, Chrysler) and in Germany during the current slump.

In the United Kingdom, however, we are hamstrung by the Employment Protection legislation. Section 22 of the 1975 Act (together with case law and common law) creates the presumption that a proposed wage cut is equivalent to an offer of a new contract of employment. If it is refused by the employee, these are prima facie grounds for an action for unfair dismissal, with redress such as re-instatement on the old terms with financial compensation. A direct cut in money wages, therefore, is thus only for the brave.

There is, however, an indirect way to reduce wages - through the Redundancy Payments Act 1965. Under this Act an employee, when declared redundant, receives half the compensation costs from the employer and half from the state. But after a suitable interval the employee can be re-employed at a lower wage. However, for the employee and employer willingly to negotiate this option, each must see some advantage - the state is the main paymaster. Clearly this sort of wage cutting is largely phoney and is not to be encouraged.

The best way to proceed is to remove the 1975 impediments to wage reductions. This will require legislation. You may think it is worthwhile reminding the Secretary of State for Employment of these inhibitions and the need to incorporate steps for their removal in the legislative programme.

AW

28 September 1982

ALAN WALTERS

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