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Prime Minister ①

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MR. SCHOLAR

EMPLOYMENT PROTECTION

Asymmetry in the Employment Contract

The letter from the Department of Employment of 25 October seems to accept as immutable the very one-sided nature of the employment contract. In effect, after the statutory one (or two) years of employment, the employee has the right to receive the money wage, as a minimum, whatever happens to prices, profitability etc.

*Study the fault lies in the initial contract. I see here there to be a minimum wage? - not*

*Shall I write to Mr Tebbit's office saying that you are not convinced on X at flag A and asking him to reconsider Y? MCS 28/10*

The employer cannot fire the employee except at the risk of proceedings for unfair dismissal. However, the employee always has the right to leave his employer at any time. Such an abrupt departure by an employee may involve the employer in great costs, such as when an employee fails to turn up to complete a contract. But the employer has no redress whatsoever. There is no redress for unfair quitting, only for unfair dismissal.

The advent of falling inflation will greatly increase the existing asymmetry of the labour contract. With inflation falling to below 5%, the need for actual reductions in wages will be very much more widespread. The inhibition to such reductions, already large enough, will destroy yet more jobs and create more unemployment.

Redundancy and Economic Illiteracy (or Priceless Economics)

The third paragraph of the Secretary of State's letter refers to the redundancy compensation being due "where employees are dismissed because their jobs are disappearing". This is another example of priceless economics. Jobs do not disappear. Jobs are destroyed by high wages. This is yet again a manifestation of the law being economically illiterate.

In the same paragraph, the Employment Department suggests that it would "not be right for employers to sign an undertaking that 'jobs have disappeared' if the jobs still exist". Whatever is meant by all this, again a fine example of priceless economics, surely the fact that "it would not be right" does not mean that it would not be done. Since the condition is a meaningless undertaking, it seems to me one could enter into it quite properly. And if firms can survive and prosper only by such methods, it seems to me to be no bad thing. It keeps open profitable employment and reduces the dole queues. Just what we want.

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Legislation and the Way Ahead

In the last paragraph, I accept that legislation would be required to enable employers to reduce money wages without recourse to the unfair dismissal procedure, but I cannot see how it would necessarily require legislation of a fundamental kind to give employers "the unilateral right to override a fundamental term of their employees contracts". Surely it would be possible to pass legislation which specifically relates to reductions in money wages? Furthermore, there are good arguments for doing so, since the real wage implications of fixed money wages have changed considerably as inflation has fallen.



28 October 1982

ALAN WALTERS

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