



From the Secretary of State

The Rt Hon Sir Keith Joseph Bt MP  
 Secretary of State for Industry  
 Department of Industry  
 Ashdown House  
 123 Victoria Street  
 London, SW1E 6RB

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 PRIME MINISTER  
 Contact for this subject  
 to be discussed in E(EA)?  
 Cabinet Office advice is  
 that E(EA) would be more  
 sensible than E.  
 11 April 1980 MJS  
 14/4

Dear Secretary of State,

WAGES COUNCILS

Jim Prior sent me a copy of his letter on this subject of 26 March to you, and I have seen the report of the review by officials. This issue has far-reaching implications for our economic strategy, and I hope we can discuss Jim's proposals collectively, either in E(EA), if you judged that to be the appropriate forum, or in E if the Prime Minister wished to take it there.

I agree with Jim Prior that we should rule out any form of national minimum wage, and that we have to choose between abolishing the Wages Councils (or at least their statutory powers) and reforming them. In my view the economic arguments are decisively in favour of abolition.

We need to see this question in perspective. We all recognise that the main threat to our economic strategy of squeezing inflation out of the system is that the institutions of our labour market are not well adapted to adjusting pay rises to what employers can afford to pay: and hence that we may see a dangerous rise in unemployment before our strategy succeeds. This means that one of our most urgent tasks is to remove the sources of "stickiness" in the labour market wherever we can, so that pay is more responsive to competitive and monetary developments.



*From the Secretary of State*

Wages Councils, with their statutory power to fix minimum wages for 3 million workers, are only one aspect of this task, but an important one, that does lie in Government control. I do not believe their influence is confined to those workers who are paid the statutory minima. Even though I accept that the Wages Councils follow rather than lead collectively bargained pay settlements, they nevertheless tend to raise the floor on which the structure of differentials is built: and they tend, as the officials' review hints (paragraphs 27-28), to underwrite excessive collectively bargained wage rates in inhibiting competition which might otherwise undermine the market power of trade unions.

We cannot ignore that some of the industries which are prevented by these arrangements from adapting their costs to what their markets will bear are those which are under the greatest competitive pressure even now. For example I receive repeated requests for the introduction of trade protection for the clothing industry, whose employees are covered by the wage determinations of Wage Councils. I cannot grant such requests and have to tell those who make them that it is their own responsibility to keep their costs in line with the prices their customers will pay. But when we ourselves are sponsoring statutory arrangements which inhibit them from doing so, our position is not easy to defend.

It is argued that Wages Councils are there to protect workers who lack access to a competitive market for labour. But this looks like a mere post hoc justification: it can hardly be the explanation for the collection of sectors which Wages Councils now cover (for most of which I am the sponsoring Minister, eg distribution, retailing, hotels and catering and high street services). These are far from the industries in which local monopolies of employment exist, or whose workers lack access to a large and competitive labour market (there is no shortage of shops, or clothing firms). The problem in many of these industries is that the number of jobs is declining:



*From the Secretary of State*

but this is precisely the reason why we must avoid measures which restrict their ability to adjust their costs to what their markets will bear.

Moreover I see that the officials' report finds that Wages Councils are not an effective means of tackling poverty: only a small proportion of the low paid are covered by Wages Councils, and only a small proportion even of these are the main support for poor households, most of the poor belonging to households in which no-one is going out to work. This means we must take even more seriously the danger that statutory wage-fixing reduces the numbers of employment opportunities (especially, as the officials' report says (paragraph 43) for the young and unskilled) and thus tends to exacerbate the problems of unemployment and poverty which we are likely to face in the future.

Clearly we face a dilemma, arising out of the power of the unions to keep real wages and hence unemployment higher than we would wish in unionised industries. This means that in non-unionised industries there is a choice between either letting wages be established at levels that will seem by comparison to be inequitably low, or sponsoring administrative arrangements such as Wages Councils to act as surrogates for trade unions, and thus making ourselves directly responsible for some of the forces keeping unemployment so high.

Whatever the economic arguments, I can see the political difficulty that abolition would entail. It is the statutory powers to set enforceable minima that I think we should be most concerned to abolish, rather than necessarily the Wages Councils themselves, which could have a continuing role as consultative and advisory bodies. But if we conclude that we cannot at this stage remove the statutory powers, then I think we must go for a radical reform of the way they are used, designed to avoid adding to the pressures forcing up unemployment. Option 6 in the officials' report suggests giving Wages Councils an overriding duty to fix wages so as to maximise employment in their



*From the Secretary of State*

industries and hence to take account of market forces rather than to try to work against them. If we are to keep the statutory powers I am sure we need something on these lines.

I am copying this letter to the Prime Minister, the other members of E and E(EA), and Sir Robert Armstrong.

*Yours sincerely,*

*Nicholas McLines*

JOHN NOTT

(Approved by the Secretary of State and signed in his absence.)



cc DIT Ind Affs  
HIT  
D/Emp  
CO  
MAFF

10 DOWNING STREET

*From the Private Secretary*

15 April 1980

Wages Councils

The Prime Minister has seen a copy of Mr. Nott's letter of 11 April to your Secretary of State. She is entirely content that this matter should be discussed in E(EA) rather than in E.

I am copying this letter to Stuart Hampson (Department of Trade), John Wiggins (H.M. Treasury), Richard Dykes (Department of Employment) and David Wright (Cabinet Office).

**N. J. SANDERS**

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26 March 1980

### WAGES COUNCILS

Your letter of 31 October 1979 supported John Biffen's earlier suggestion that there should be a review by officials of the wages council system. This review has now been completed by officials from a number of interested departments and their report has been circulated. A copy has been sent to Peter Walker who drew attention on 8 November to the interests of himself and other agricultural Ministers in relation to the Agricultural Wages Boards.

Although the report makes no specific recommendations it is clear that there are three main possible courses of action. I shall deal with them in turn.

The first option is to abolish the wages council system without replacement. The argument of principle for this is that the fixing of wages under statute is incompatible with our basic attitude to pay determination. We need, however, to look at things as they are; and at the practical and political implications of such a course.

The Wages Council system has operated for some 70 years under successive governments, and with all its imperfections provides some minimum level of protection for about 3 million workers in sectors where collective bargaining arrangements are otherwise weak or virtually non-existent. It is a fact that all western countries provide some form of statutory wage protection for workers who lack access to a competitive market for their labour and who are unable to bargain effectively. Wholesale abolition at a time of high inflation would present our opponents with a major opportunity to misrepresent our attitude to the lower-paid and more vulnerable members of the community. There is no evidence of any general support for it; indeed, it would be opposed by virtually all the many employers' associations who are represented on the Councils, as well as by the trade unions.

As against the certainty of wide-ranging opposition, what are the potential gains? There are no grounds for believing that abolition could have more than a marginal effect on employment opportunities, and that only by depressing still further the lowest wages in the economy. It is sometimes said that the awards of wages councils exert an inflationary influence on other pay settlements; but the evidence is that they follow



rather than influence other settlements. They set only minimum rates, few of which exceed \$50 weekly, and the rates actually paid tend in practice to reflect the circumstances of individual firms and their labour needs. It is difficult, therefore, to perceive any significant benefits from abolition that would justify accepting the practical and political difficulties of embarking on that course.

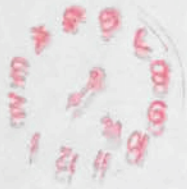
Finally, I cannot see how we could reconcile abolition of the system generally alongside retention of the Agricultural Wages Boards. Peter Walker and the other Ministers concerned will no doubt have views on the attitude of the farming community to those Boards.

The second option is to replace the wages council system by some form of national minimum wage. There can be no doubt that the wholesale abolition of wages councils would lead to persistent pressures for some alternative form of protection for the lowest paid. A national minimum wage is operated in some other countries. It would cover all low paid workers; it would more be readily understood, and it would be easier to administer. But it would involve the Government directly in the determination of wages and in the need to justify and defend the minimum level of protection; and operating across the board it could have a significant inflationary effect as other workers sought to maintain their differentials. I conclude that this option should be ruled out in present circumstances.

The third option is to continue with the present system but seek to improve it. We should energetically endeavour to foster the streamlining and simplification of the system; to reduce the scope and number of wages councils wherever conditions are suitable; and to encourage the industries concerned to develop adequate collective bargaining arrangements. In developing this programme I would propose to pay particular attention to the problems of the small businessman who is struggling to cope with inflation and rising costs. Criticism of wages council awards comes mainly from the ranks of the small shopkeeper. I intend to raise this directly with the wages councils and urge them to explore ways of giving special consideration to the situation of the very small businessman and the pocket-money part-time workers.

I am sure that a programme of progressive reform on these lines is the right course in present circumstances.

I am copying this letter to other members of E(EA), to Peter Walker and to Sir Robert Armstrong.



14 APR 1988







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MS

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18 April 1980

*Dear Keith*

*will require if required*

## WAGES COUNCILS

Thank you for your letter of 3 April in reply to mine of 26 March about the future of Wages Councils. I have also seen the letters from the Prime Minister's Private Secretary, John Nott, John Biffen and Nicholas Edwards.

It is clear that although we are all agreed about the undesirability of any form of national minimum wage, there are considerable differences of view about reform or general abolition of the Wages Council system. A number of arguable points have been made and it is apparent that it would be unprofitable to try to deal with these in further correspondence. I should be glad to discuss in E(EA) on the basis of our exchange of correspondence, with the report by officials as background. This will give us an opportunity to rehearse collectively not only the economic arguments but also the political considerations which I think we all agree are of considerable importance and sensitivity.

I assume that Peter Walker will be invited to take part in the discussion: for my part I cannot see that it would be possible to sustain a case for general abolition of Wages Councils on grounds of economic principle and at the same time depart from the principle in order to treat the Agricultural Wages Boards differently.

I am copying this letter to the Prime Minister, other members of E(EA) Peter Walker and Sir Robert Armstrong.

*Yours  
Keith*

18 APR 1980

