

PRIME MINISTERWAGES COUNCILS

1. E Committee will be discussing Unemployment and Young People next week.
2. The CPRS report on youth unemployment (E(81)22) suggests (paras. 45-47 and A11) that some young people have been priced out of jobs by a narrowing differential with adult rates of pay. Accordingly, para. 48(ii) suggests that excluding juveniles from the scope of Wages Councils awards could help to boost youth employment.

Previous Discussions

3. The majority view of E(EA) last November was that Wages Councils should be retained, but that the Secretary of State for Employment should see whether young people and part-time workers could be exempted from the scope of Wages Councils awards. In our view, this suggestion amounts to an admission that the effect of Wages Councils is probably harmful. We understand that it is very unlikely that a way of exempting young people will be found. We think the correct solution is simply to abolish Wages Councils.
4. Do we think that Wages Councils help the 2.75 million people that they cover? If they do raise wages above the market level in the industries concerned, they must raise unemployment. They can only benefit the employed at the expense of the unemployed.
5. Studies have shown that the overlap between low pay and poverty is small.\* Many of the low wage earners affected by Wages Councils are married women or young single men. The poor, by contrast, are typically larger families where there is only one breadwinner. So the supposed beneficiaries are not the poorest section of the community, and can only gain at the expense of preventing other people, including heads of households, from getting a job.

New Information

6. The National Federation of Self-Employed and Small Businesses recently published a well-researched commentary on the effects of the Wages Council system on jobs. Employment Ministers have been questioned in the House, and Mr John Townend has sought to introduce a Bill curbing

\* R Layard, Centre for Labour Economics at LSE.

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them. A summary of the booklet is annexed. The Federation has backed up its points; we will not repeat all the arguments here.

7. There is strong evidence that in the USA, paradoxically, minimum wage laws have hit poor, unskilled blacks hardest of all. If as a result of poor educational facilities and lack of experience, these people have less to offer an employer, he will only employ them if he can pay them less than others. A minimum wage law prevents this. Instead, a price is fixed artificially, causing the employer to choose the best qualified. In effect, the law says to a young, inexperienced and unskilled person: "You are not free to price yourself into a job". As a result, black youth unemployment in the USA is now 40%, while the white youth rate is 16%. But in 1948, before this misguided legislation was introduced, unemployment among black and white youths was equal. (Of course, the black youths tended to earn less, reflecting their adverse starting point.)

#### The Case against Abolition

8. It was argued at E(EA) that Wages Councils probably did not do much harm and that it would be hard to explain a decision to abolish them. Of course, there would be many attempts to misrepresent such a decision. It would be necessary for Government Ministers to fight and win the argument. We think this could be done, especially if the announcement were linked with other employment measures. It is completely consistent with everything we have said and stand for that people - especially the young and unskilled - should be free to price themselves into jobs. There is no need to be afraid of spelling this out. It is all part of replacing economic myth with economic reality.

#### Recommendation

9. We recommend that the Government should take an early opportunity to announce its intention to abolish Wages Councils - coupled with an announcement on other measures on training and youth employment. If Ministers judge that winning the ensuing propaganda war is impossible, a second best solution would be to leave Wages Councils intact for establishing terms and conditions of work, but to remove their wage-fixing power.
10. I am copying this minute to members of E, Robin Ibbs and Sir Robert Armstrong.



JOHN HOSKYNS

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## Summary

[1] Wages Councils were mostly set up in the 1920's to protect workers from 'sweatshop' conditions and low rates of pay in fragmented industries that were hard to organise. Because of rapid advances in communications and centralised collective bargaining, they are no longer necessary.

[2] Nevertheless, Wages Councils have the power to fix minimum wage rates for 2.7 million workers in every trade from haberdashery to hotelkeeping. Their awards have the power of law, and employers can be subject to large fines for underpayment.

[3] Over the last few years, Wages Councils have used their statutory powers to force wages increases on employers that are far ahead of the rate of inflation, of wage rates in comparable industries, and of average wages in the economy as a whole.

[4] Wages Councils have forced up the real cost of labour considerably by insisting on increases well above average for younger workers, and by reducing the length of the working week.

[5] The effect of this has been to cause unemployment. The worst affected have been women, school leavers, and ethnic minorities, who have all found themselves priced out of jobs. The Government should realise that it must encourage people to create jobs, not make it more difficult, as is the effect of Wages Councils' awards.

[6] Wages Councils entail an expensive secretariat and enforcement arm. They add further costs to businessmen and consumers because of increased paperwork. Many Wages Council awards are difficult to interpret and understand, causing further administrative difficulties for traders. The powers of the inspectorate are sweeping.

[7] Wages Councils are nevertheless inefficient, and often allow far too little time for those affected by their decisions to lodge objection.

[8] Awards can be backdated, so that traders never know exactly where they stand with respect to labour costs. This makes efficient budgeting impossible, driving down profit margins and reducing the number of new firms entering each industry – or making extra costs for the consumer. There is an overwhelming pressure from small businessmen for longer periods of consultation, a less offhand approach from inspectors, and the ending of backdated awards.

[9] Wages Councils have outlived their usefulness, have an adverse effect on trade and employment, and ought to be abolished. In the meantime, they should be reformed, made more representative, reduced in scope and made aware of their harmful effects.



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I have seen John Hoskyns' minute to you of 17 February.

2 Although E(EA) reluctantly decided last year that Wages Councils should be retained, I believe that John is right to raise the question again in view of the increasing concern about unemployment, particularly youth unemployment. I hope that his minute can be considered in E next week alongside the other possible improvements to the operation of the labour market that were put forward in the CPRS report on youth unemployment.

3 I am sending copies to the other members of E, and to Robin Ibbs and Sir Robert Armstrong.

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