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PRIME MINISTER

Wages Councils  
(E(81) 40)

BACKGROUND

After two discussions last year, the E(EA) Sub-Committee accepted the Secretary of State for Employment's recommendations that the Wages Councils system should be retained, but improved, subject to his examining further the possibility of removing young people and part-timers from the scope of Wages Councils awards. When E Committee discussed youth unemployment and training, and the Fair Wages Resolution, on 24th February, they invited the Secretary of State for Employment to put his paper on Wages Councils to them (E(81) 8th Meeting, Item 2).

2. There are now 33 Wages Councils - 16 less than in 1969 - covering 2 $\frac{3}{4}$  million workers. In E(81) 40 the Secretary of State for Employment recommends strongly that, as E(EA) agreed last year, the system should stand but be improved. His main arguments for maintaining the system are that:-

- (a) It expresses long-standing, all party concern to prevent exploitation of unorganised workers in low pay sectors.
- (b) There is no firm evidence that significant economic benefits might flow from wholesale abolition -  
statutory minimum rates under the system average about 20 per cent below collectively bargained minima, and many employers choose to pay more than the statutory minima;  
for more detail see Annex A of E(81) 40 and also Annex B for a commentary on the recent criticisms of Wages Councils made by the National Federation of Self-employed and Small Businesses Limited.
- (c) Abolition would require primary legislation which would be contentious and could stimulate pressure for compensating measures, e.g. a national minimum wage, and also the extension of trade union activity into the small business sector.

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(d) It would be difficult logically to defend the abolition of Wages Councils but the retention - as the Agriculture Ministers strongly wish - of the Agricultural Wages Boards. (This is an argument likely, if the E(EA) discussion is any guide, to weigh heavily with colleagues. The farmers positively like the system.)

3. The Secretary of State for Employment further argues - paragraphs 9-13 of his paper - against primaryy legislation to remove young people and part-time workers from the scope of the Wages Councils. He judges that since the rates paid to young people frequently exceed the statutory minima any additional jobs would be relatively few and at the expense of adults. He prefers to concentrate on the wider issue, which will be discussed in his consultative paper on industrial training, of the need to widen the wage differential between young people generally and adults. He believes that to remove part-timers from the scheme would be seen as an attack on low paid married women many of whom work part-time of necessity. The arguments against exclusions are set out in more detail in Annex C to his paper.

4. The Secretary of State has already taken action to improve the system. He has announced that the Wages Inspectorate will be cut from 300 to 200. He is looking for improvements in procedures such as stopping the practice of back-dating of pay increases and simplifying the Councils procedures and paper work. These improvements are described in more detail in his Annex A2.

HANDLING

5. After the Secretary of State for Employment has introduced his paper you might invite the Secretary of State for Industry, who has been one of the main critics of the system, and the Chancellor of the Exchequer to comment. The Secretary of State for Social Services may wish to comment on the implications for the low-pay groups. The Minister of Agriculture and the Secretaries of State for Scotland and for Wales will be particularly concerned over the need to retain the Agricultural Wages Boards and to question whether this would be possible if the Wages Councils were to go.



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6. The logical sequence of questions to which colleagues might address themselves is:

(a) Do colleagues accept that the Agricultural Wages Boards must be retained? If not the option is open of scrapping the whole system.

(b) If the Agricultural Wages Boards are to be retained must a (not necessarily the) Wages Council system also be kept?

(c) If Wages Councils are to be kept should it be in the form (and with the reforms) prepared by the Secretary of State for Employment?

Or (d) should young people be excluded from their remit?

And (e) should part-timers be excluded?

CONCLUSIONS

7. In the light of the discussion you will wish to record conclusions:-

Either (a) that the Committee endorses the recommendations in paragraph 14 of E(81) 40 in favour of continuing the present system with improvements;

Or (b)(i) that the Committee agrees in principle, and subject to finding a place in the legislative programme, to the abolition of the Wages Council system;

(ii) that the Committee agrees in principle additionally to abolish the Agricultural Wages Boards;

Or (c) that the Committee agrees in principle to retain both the Wages Councils and the Agricultural Wages Boards, but to exclude either/or both (i) young people (ii) part-timers from their remits.

RTA

(Robert Armstrong)

7th April 1981



cc/A August



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Qa 05311

To: MR LANKESTER

7 April 1981

From: J R IBBS

Wages Councils (E(81)40)

1. E(81)40 is concerned with two issues - a wider one, viz. whether the Wages Council system should be retained or abolished, and a narrower one, viz. whether certain groups - the young and/or part-timers - should be excluded from jurisdiction of wages councils.

2. On the wider issue, the CPRS believes that it is difficult in principle to justify the retention of wages councils in modern conditions. Mr Prior does not in his paper seek to argue that they are performing a valuable or worthwhile economic or social role; indeed, he argues that their effect on inflation and employment is only marginal, and the official working group concludes (Annex A, paragraph 8) that minimum wages levels in areas covered by wages councils probably differ little from what a free market would determine. On that basis, an apparatus costing nearly £3 million a year (including 200 wages inspectors), plus unquantified administrative burdens on employers, seems at least not at all cost effective.

3. On the other hand, in the absence of positive evidence that the abolition of wages councils would have any significant beneficial effect on employment, Mr Prior may well be right to stress the political objections to abolition that would be raised. Unless one could demonstrate that the system is having a clearly damaging effect (and the CPRS, like Mr Prior, do not think that the available evidence can support this argument), Ministers have to consider whether the credit that they could take for relatively small expenditure savings would be sufficient to outweigh a major political row in which their motives for pursuing abolition would be gravely misrepresented.



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4. On the narrower issue, which only arises if Ministers decide not to abolish the wages councils altogether, the CPRS thinks that the case for excluding young people under 18 is a good deal stronger than that for excluding part-timers. Since part-timers are around one-third to one half of those covered and mostly women, their exclusion would be seen both as a major attack on the system and as discriminatory. Young people under 18 on the other hand form only 5 per cent - 10 per cent of those covered. The case for exclusion is:

(a) The Government is concerned about the narrowing of the differential between young people's and adult wages, and its implications for youth unemployment. One of the themes of the proposed New Training Initiative document is that this trend should be reversed.

(b) Wages Councils awards reflect this trend, even if they have only followed the results of collective bargaining elsewhere.

(c) The Government could take direct action on wages councils' powers on young people's wages, whereas elsewhere it can only seek to influence employers and unions indirectly.

5. If exclusion of young people is thought to be too controversial, an alternative approach (suggested in the CPRS Report on Unemployment and Young People - E(81)22, paragraph 48ii - but not discussed in Mr Prior's paper) would be to limit the powers of wages councils in relation to young people, e.g. by providing that minimum wage levels for them should not exceed supplementary benefit level plus x per cent, or should not exceed y per cent of corresponding adult rates. Mr Prior might be asked whether this approach has been, or should be, considered.

6. I am sending a copy of this minute to Sir Robert Armstrong.