

7 April 1981

Policy Unit

PRIME MINISTER

WAGES COUNCILS

We have circulated the attached note as a reminder for the discussion at E tomorrow.

It might be helpful if you invited Alan to comment on US experience. This would also give him the opportunity to make one or two other points which need making.



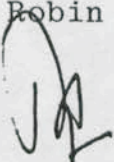
JOHN HOSKYNS



PRIME MINISTERWAGES COUNCILS: E DISCUSSION ON WEDNESDAY, 8 APRIL

1. E(81)40 argues for continued pruning of the Wages Council system. This implicitly accepts that they do more harm than good.
2. We agree. We also agree that it would be illogical to sustain the system but seek to exempt young people or part-time workers - thus admitting that it was harmful to their interests.  

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3. Instead, we favour complete abolition. There are only two views possible on price-fixing by law: either it works, producing unfortunate side effects - in this case unemployment; or it fixes prices at a level very close to those which would arise anyway - in which case it is unnecessary.
4. Paragraph 7 of E(81)40 says that the official paper concluded that the influence on employment was marginal. But the paper cited contains very little evidence; it was written before the recent vociferous criticism by small employers; and its opening paragraph disclaims any attempt to assess the general argument for or against the system.
5. The American experience quoted in our note of 17 February is that minimum wage laws have hit poor, unskilled blacks hardest of all. The law prevents them from pricing themselves into a job and acquiring the work experience that is vital to moving on to better jobs. Levels of unemployment among black youths in the UK are now climbing towards USA experience. At the same time, contrary to the impression given in E(81)40, USA is now considering dismantling these barriers to employment.
6. Of course, our opponents would try to misrepresent the purpose of abolition. The key question is whether fear of losing the argument is a sufficient reason for inaction.
7. I am copying this minute to other members of E Committee, the Secretaries of State for Scotland, Wales and the Social Services, Robin Ibbs, and Sir Robert Armstrong.



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