

PRIME MINISTERWAGES COUNCILS: E ON TUESDAY, 26 JANUARYComplete Abolition is the honest solution

1. Our previous notes (attached for reference) have consistently argued for the abolition of Wages Councils. Minimum wage laws are completely at variance with the Government's aim to free labour markets so that we secure a higher level of employment and output, lower unit wage costs and prices, reduce imports and the PSBR and perhaps even increase exports.
2. It is sometimes argued that Wages Councils fix rates so low that they are the same as if they were determined by the free market. If that were so, it would equally be an argument for saving public money and 200 Wages Inspectors.
3. Abolition would provoke a condemnation from the ILO. But this could be used to our advantage, to highlight our determination to sweep away infringements of our liberties and obstacles to employment. There is no reason why we cannot win this public debate. We can quote American experience of minimum wage laws which, as Alan points out, discriminate against the disadvantaged and do not benefit the poor; we can expose the wrong-headedness and left-wing and communist dominance of the ILO - from which Ford/Kissinger extricated USA in 1975, only to be reversed by Carter in 1980 (see Annex).

Inferior alternatives to Abolition

4. If colleagues really feel that they could not win the public debate on abolition, various alternatives have been put forward. Of these, we think the next best would be option 2(c) in Norman Tebbit's paper: removing their power to set minimum rates.
5. CPRS have proposed a slightly modified version of this same route, by adding a "safeguard" against exploitation. This would put the onus on the plaintiff to prove that the low pay resulted from monopsony or exploitative collusion. We don't like this concession, but since it would probably be very hard to invoke it, the CPRS package is probably a poor third best.

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6. A poorer alternative is to exempt young people from Wages Councils. This still leaves millions affected, but it could be a step towards abolition - since it would admit that Wages Councils are an obstacle to youth employment. It would also allow us to expand the approach in the Young Workers' Scheme (which was constrained partly by the existence of Wages Councils).
7. This leaves Norman Tebbit's own proposal - simply constraining the percentage that young people's minimum wages are of adult minimum wages - as a very poor last choice. As the Chancellor has pointed out, it could backfire by exerting upward pressure on the adult rate.

Agricultural Wages Board (AWB)

8. There is a connection between our stance on Wages Councils and on the AWB. Many colleagues have close connections with agriculture, and this no doubt means they have strong views on the AWB. They may fear that its abolition would lead to something worse, in which unions had a greater voice. But the recent performance of the AWB in awarding 10% and an extra week's holiday (ie 12% in all) with no attempt to open up differentials between young people and adults, has struck a further blow at youth employment. Nevertheless, it may be tactically better to leave on one side AWB issues at this meeting of E.

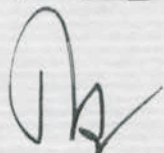
Longer-term

9. Some opponents of abolition of Wages Councils believe that their removal would be replaced by greater unionisation or, worse still, an all-embracing minimum wage law. The latter fear amounts to political cowardice: it could only happen if we lost power. The former is understandable, but the correct antidote is to continue our programme of trade union reform.

Conclusion

We rank the outcomes as follows:

- (1) Clear first choice: abolition.
- (2) Second choice: remove wage-fixing power.
- (3) Third choice: remove wage-fixing power with CPRS safeguard.
- (4) Fourth choice: remove young people and part-time workers.
- (5) Fifth choice: control relativity between young and adult rates.



I am copying this note to Geoffrey.

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NOTES ON THE UNITED STATES AND THE INTERNATIONAL LABOUR OFFICE

1. The United States gave the two year notice period that it would withdraw from the ILO on 5 November 1975. The State Department did not want to withdraw, but Henry Kissinger was convinced that it was the right policy. President Ford also agreed. There was also some considerable pressure from the workers organisations, in particular the AFLCIO.

2. The reasons cited in the letter were:
 - i. The ILO was allowing pressure by Communist countries to erode the autonomy of non-Government groups.

 - ii. The ILO exhibited a double standard for human rights violations, condemning them in non-Communist countries and condoning them in Communist states.

 - iii. The ILO had no respect for due process and in fact condemned Greece and Israel before the Committees of Inquiry had even reported.

 - iv. There was increasing politicisation of the ILO and particularly the annual conference.

3. Pressure from the State Department, which continues to be dominated by McGovernites, caused Carter to return to the ILO on 18 February 1980.

[NOTE: All this information came from Roger Schrader, ext 2121 at the US Embassy, London.]

AW

21 January 1982

ALAN WALTERS

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.

6 April 1981
Policy Unit

PRIME MINISTER

WAGES 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.

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.


JOHN HOSKYNS

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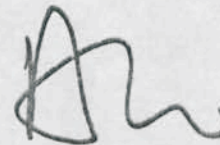
cc Mr. Hoskyns
Mr. Wolfson
Mr. Scholar ✓

MR. DUGUID

THE ILO AND THE FAIR WAGE RESOLUTION

1. I confirm now that the situation was broadly the same as I informed you. But I have now got the dates, etc from the US Embassy.
2. The ILO was clearly enormously damaged by the withdrawal of the United States, since of course the US foots most of the bill. I know that plans were afoot to withdraw again under the Reagan administration, but they may be waiting for a casus belli. It is believed that the ILO is watching its Ps and Qs as well as its Pinkos and Commies, rather more circumspectly now. I suppose quite a bit turns on their reaction to Solidarity etc. But I'm not up on all this. 25%
A3
3. The United States, however, is not a party to the Fair Wage Resolution. In fact the only resolutions which have been adopted by the United States are those concerned with maritime labour.
4. It is quite clear that virtually all the resolutions of the ILO, with the exception of the maritime ones, would be inconsistent with labour legislation in many of the Southern and Western states. For example they would certainly be inconsistent with the so-called right-to-work laws in Virginia.

21 January 1982



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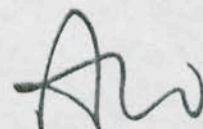
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