

P.0631

PRIME MINISTERWages Councils
(E(81)127 and E(82)3)

BACKGROUND

When the Committee last considered Wages Councils in April 1981 (E(81)14th meeting), they agreed that legislation should not be introduced to abolish Wages Councils, or to provide for the exclusion from their scope of particular categories, but that the then Secretary of State for Employment should press ahead with reducing the number of Councils and with improving the system; the problem of narrow differentials between rates of pay for young people and for adults was noted in particular.

2. Since then the number of Councils has been further reduced (27 compared with 33 last April and 49 in 1971), although the number of workers covered (2 $\frac{3}{4}$ million) has changed little in recent years. In E(81)127 the Secretary of State for Employment has reconsidered the options, has confirmed the earlier conclusions but has proposed action over narrow youth/adult pay differentials. The Wages Councils Act 1979 would have to be amended so that the Secretary of State could prevent councils from increasing statutory minimum rates for 16 and 17 year olds if the increases would leave them above a given percentage of the relevant adult rate, as specified from time to time by order. The Agriculture Ministers would need to consider whether to take any parallel action in respect of the Agricultural Wages Boards.

3. The CPRS paper, E(82)3, points to some objections to this proposal - that the limits for each trade would be arbitrary and difficult to set and that the effect might be to increase some adult Wages Council rates rather than reduce youth rates. The CPRS suggest reconsideration of abolition or reform of the Councils in the context of a package of labour market measures; if abolition is not thought feasible, they favour either the removal of the Council's powers to fix minimum pay, subject to safeguards, or the exclusion of youth rates from the Councils' control.



4. In his minute to you of 18 January the Chancellor of the Exchequer accepts that early abolition of Wages Councils is ruled out by ILO considerations but expresses some doubts about the Secretary of State for Employment's proposals because of the risk of upward pressure on adult rates. He favours removing young people and part-time workers from the scope of the Councils and also asks for consideration to be given to other ways of limiting their possible damage - a more rapid reduction in the number of Councils, the selection of independent members who would give more weight to market factors, and a right of appeal to the Secretary of State for Employment on the grounds that employment would be adversely affected by wages council decisions.

MAIN ISSUES

5. The main issues for discussion are:
- a. whether it is right to confirm the earlier decision not to abolish Wages Councils;
 - b. if Wages Councils are to be continued, whether:
 - i. the Secretary of State for Employment's proposal about youth/adult differentials should go ahead, or
 - ii. one or more of the other approaches suggested by the Chancellor of the Exchequer and CPRS should be adopted.

Whether to abolish

6. It has been generally accepted that the Councils serve little purpose and place some administrative burden on small firms. In principle such arrangements might be expected to cause wage rates in the industries concerned to be higher than they might otherwise be if left to market forces, and thus to reduce employment, although, as the Chancellor concedes, the practical effect is probably only marginal. The main arguments against taking action are:

- a. Wages Councils are seen, rightly or wrongly, as a safety net to protect the low paid; abolition would stimulate controversy out of proportion to the benefits.



- b. The opportunity to abolish Wages Councils without conflict with our ILO obligations does not arise until June 1985, taking effect a year later.
- c. The Agricultural Ministers have hitherto favoured retention of the Agricultural Wages Boards as being in the interests of both farmers and farmworkers, and as tending to inhibit the power of agricultural unions; it might be difficult to justify abolishing the Wages Councils while retaining the Agricultural Wages Boards.

7. If the Committee considers that abolition now is not feasible they might nevertheless want to keep open the possibility of action during the next Parliament when the opportunity to denounce the relevant ILO Convention is available.

Youth/adult differentials

8. If abolition is ruled out, for the time being at least, the Committee will then want to consider the Secretary of State for Employment's proposal for dealing with youth/adult differentials. As he points out, the Government has been particularly concerned, in the Young Workers Scheme and in other ways, to improve employment opportunities for the young and in particular to provide an employer with some financial incentive to take on young workers with no previous training or experience. Will the proposal materially assist these efforts?

9. The first question is whether the youth rates provided by the Wages Councils contribute significantly to the narrowing of youth/adult differentials. The evidence in Annex B, Appendices 1 to 3 suggests that except perhaps in one or two trades such as laundries the Wages Council rates for 16 year olds and 17 year olds tend not to be significantly higher, as a percentage, than in many other employments and in several other European countries. Comparison with the earnings limits under the Young Workers Scheme suggests that the Wages Council rates are higher in three trades for 16 year olds and four trades for 17 year olds.

10. The Secretary of State's paper concedes that the imposition of restrictions on youth rates raises some difficult issues of principle and some practical

problems. The Committee may feel that the major difficulty is that the Government would for the first time need to take a view itself on the maximum percentage which a youth rate should represent of the adult rate in various trades. Should the Government interfere in this aspect of wage determination in the private sector, in those trades which happen to be covered by Wages Councils? If the Government does interfere, how does it justify the choice of particular percentages, bearing in mind, as Annex B, Appendix 2 shows, the wide existing variation between trades (for example hairdressing 48 per cent, laundry 80 per cent)? A further difficulty to which the Chancellor of the Exchequer and the CPRS have drawn attention is that a restriction on the proportion which youth rates may represent of adult rates may tend to push adult rates up rather than keep youth rates down.

11. If these proposals were to go ahead, the Agricultural Ministers would need to consider whether analogous action should be taken under separate legislation in respect of youth rates covered by the Agricultural Wages Boards. They are likely to take the view that it would be difficult to act on the Wages Councils alone and leave the Agricultural Wages Boards unaffected. On the other hand they may see some objection to the Government's becoming involved in this way in the agricultural wages machinery.

12. In general the Committee will have to judge whether the benefits to be gained from assisting, albeit perhaps marginally, with the problem of youth/adult differentials outweigh both the difficulties of principle and the practical problems or whether one of the other approaches to reform of the Wages Councils would be preferable.

Exclusion of young people and part-time workers

13. Both the Chancellor of the Exchequer and the CPRS favour reforming the Wages Councils by excluding young workers from their scope; the Chancellor would favour the exclusion of part-time workers also. A proposal on these lines was considered in the report discussed by the Committee in April 1981 (E(81)40). In the discussion last April a decisive objection was that legislation would be required. This consideration applies equally to Mr Tebbit's current proposal. It was however argued additionally that removing the protection of the Wages Council system from young people altogether (as opposed to limiting this



protection by means such as Mr Tebbit is now suggesting) might, like abolition of the Councils, involve denunciation of the ILO Convention. The Chancellor doubts (para 4 of his minute) whether this would be the case. The Committee will need the Secretary of State for Employment's advice on this point, after consulting the relevant experts. A subsidiary question is whether some safeguarding arrangements of the kind envisaged by the CPRS would meet this difficulty and, if so, whether such arrangements would be workable.

Removal of powers to set enforceable minimum rates

14. One of the options favoured by the CPRS and considered last year in E(81)40, Annex A, would be to remove from Wages Councils their power to make enforceable orders; instead they would fix voluntary recommended rates of pay and individual employers would be able to take account of these recommendations when setting their own pay rates. It is generally accepted that this measure, by itself, would be tantamount to abolition of the wages council system. The CPRS therefore propose in paras 7 and 8 of their paper a system of safeguards under which Wages Council members would not only provide an advisory and conciliation service rather like ACAS, but would also monitor abuse with provision for disputed cases to go before the Central Arbitration Committee under the Employment Protection Act. These arrangements would have the advantage of avoiding the rigidity of the present Wages Council system. They might however place a much greater burden of detailed work on the Councils. The Secretary of State for Employment will need to advise the Committee on whether he considers these safeguarding arrangements would be workable at reasonable cost.

Other suggestions for reform

15. In para 3 of his minute the Chancellor of the Exchequer lists three possible other reforms:

- i. more rapid reduction of the number of Councils;
- ii. giving greater weight to the need for an appreciation of market and employment factors in selecting independent members;
- iii. a right of appeal to the Secretary of State on the grounds that employment will be adversely affected by particular wages council decisions.

16. Suggestions i. and ii. raise no difficulties of principle and Mr Tebbit will no doubt comment on what action is feasible in the near future. Suggestion iii. has similarities to the proposal referred to at para 2(d) of Mr Tebbit's latest paper (E(81)127) for imposing a duty on the councils to set rate to maximise employment. It has hitherto been argued that proposals of this kind are unworkable since it is not possible to predict with sufficient certainty the employment consequences of any particular rate of pay and Wages Council decisions would become open to legal challenge in a difficult and uncertain legal area. It will be for Mr Tebbit to put these points to the Committee.

Labour market package

17. In para 10 of their paper, E(82)3, the CPRS suggest that any action on Wages Councils would stand a better chance of acceptance as part of a balanced package of labour market measures of the kind being considered in MISC 14. You may want to ask Mr Ibbs to give the Committee some indication of the work which is in hand in MISC 14, following its meeting on 20 January.

HANDLING

18. After asking the Secretary of State for Employment to introduce his paper, and inviting contributions from the Chancellor of the Exchequer and Mr Ibbs, you may wish to divide up the discussion by concentrating on the following issues in turn:

- i. Is early abolition of Wages Councils to be ruled out?
- ii. Failing that, is the best way of reforming the Councils to adopt the Secretary of State for Employment's proposal to take powers to control youth/adult wage differentials?
- iii. If not, should some other reform be adopted, ie
 - exclusion of young people and part-time workers from Wages Councils, possibly with a safeguard
 - removal of powers to set enforceable minimum rates, together with safeguarding arrangements as proposed by the CPRS
 - other possibilities discussed in paras 15 and 16 above.



CONCLUSIONS

19. You will wish to reach conclusions in the light of the discussion, on the issues listed in the preceding paragraph. If the Committee accepts the Secretary of State for Employment's proposal in E(81)127, he will need to be authorised to open consultations with a view to introducing primary legislation to amend the Wages Council Act 1979.

PLG

P L GREGSON

25 January 1982



Ind. Pol.

10 DOWNING STREET

Prime Minister

revised.

Employment
message from Education: -

The definition of a
young person is under 18. They
constitute 7% or 8% of the
field covered by wages council.

One.

26/1/82



HOME OFFICE
QUEEN ANNE'S GATE
LONDON SW1H 9AT

25th January 1982

Dear Mr Scholar,

ECONOMIC STRATEGY

The Home Secretary very much regrets that he will be unable to attend the meeting of the Economic Strategy Committee on Tuesday 26th January. He has had a long-standing engagement to chair a meeting of the Police Advisory Board.

I should be grateful if you could convey the Home Secretary's apologies to the Prime Minister on this occasion.

A copy of this letter goes to David Wright.

Yours sincerely
John Fields

J. E. FIELDS
Assistant Private Secretary

M. Scholar Esq.