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P.0807

PRIME MINISTER

Wages Councils

E(82)47, 48 and 56

BACKGROUND

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At its meeting on 26 January (E(82)2nd Meeting, Item 1) the Ministerial Committee on Economic Strategy asked the Secretary of State for Employment, in consultation with the other Ministers concerned, to investigate the possibility of changing the wages council system by excluding young people or part-timers from the scope of the councils, and to consider the possible implications for the Agricultural Wages Boards of any change.

2. The Attorney General advised that these changes would not be compatible with the United Kingdom's obligations under International Labour Convention 26, which requires the creation or maintenance of machinery

'whereby minimum rates of wages can be fixed for workers employed in certain of the trades or parts of trades in which no arrangements exist for the effective regulation of wages by collective agreement or otherwise and wages are exceptionally low'.

The Attorney General considers that the exclusion of particular trades would be consistent with the Convention, so long as the conditions in it were satisfied, but not exclusion of such categories as young people or part-time workers. The same applies to the exclusion of small firms, suggested by the Secretary of State for Industry in a letter of 16 February. It will be possible for the Government to denounce the Convention in the summer of 1985 but not earlier.

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3. Abolition or significant modification of the system of wages councils would entail legislation to amend or repeal the Wages Councils Act 1979. That Act would, however, permit individual councils to be abolished if there is adequate alternative machinery for determining the pay of the



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Workers concerned, and reasonable standards of remuneration are maintained. The Secretary of State for Employment would have to give notice of his intention to abolish a council. If objections are raised, the proposal must be referred to the Advisory, Conciliation and Arbitration Service for investigation.

4. The Agricultural Wages Boards are constituted in much the same way as wages councils and carry out similar functions. They are set up under different legislation, and are the subject of different international obligations. However, decisions on wages councils could have implications for them.

5. In May, the Secretary of State for Employment circulated his memorandum E(82)47, putting forward two courses for consideration.

Option 1: Legislation to impose a statutory obligation on wages councils to take account of employers' capacity to pay and the implications for employment. Such an obligation would probably be unenforceable in the courts, but might have a useful declaratory affect.

Option 2: To move cautiously towards abolition of the two councils dealing with retail distribution, first taking informal soundings of employers.

6. The Central Policy Review Staff also circulated a note (E(82)48) discussing the options and the general strategy which Ministers might adopt towards the wages council system, and suggesting two additional options for consideration.

Option 3: As Option 1, but with the addition of a dispute procedure whereby an independent arbitrator would assess the effects of proposed minimum rates on employment.



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Option 4: A declaration of intent to abolish the system when international obligations permitted.

7. Consideration of these papers in E Committee was held over while you discussed the issues bilaterally with the Secretary of State for Employment, taking account of notes by Mr Alan Walters (Mr Scholar's letters of 26 May and 4 June). Following this, the Secretary of State circulated a further memorandum (E(82)56), in which he appears to resile from Option 1, but proposes to extend Option 2 to cover two further Wages Councils.

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8. Other Ministers have also contributed to the correspondence.

i. The Minister of Agriculture, Fisheries and Food, in letters of 19 April and 24 May, favours Option 1, and suggests a cautious approach to the abolition of the retail distribution councils; but he suggests that companies with satisfactory wage bargaining arrangements might be excluded from their scope.

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ii. The minute of 30 April from the Secretary of State for Northern Ireland suggests that there would be political dangers in appearing to be taking too stern a line on low pay; and

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iii. The letter of 11 May from the Secretary of State for Industry suggests that more people with experience of running small firms should be appointed as independent members of wages councils.

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9. You will be aware that the subject has been considered by Ministers collectively on a good many occasions. A list of Ministerial committee meetings, and a brief outline of the main courses of action considered, is annexed to this brief.

MAIN ISSUES

10. The following main issues appear to arise:

- (i) What is the Government's strategy towards wages councils: changes in detail; or complete abolition when international



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obligations allow? ('changes in detail' might mean either reforming the system - as in Option 1 and 3 - or reducing its scope - as in Option 2).

(ii) Within that strategy, what action, if any, should be taken in the short term?

It may also be necessary to consider:

(iii) What are the implications of any decision on wages councils for the Agricultural Wages Boards?

Strategy

11. Ministers collectively have attached a good deal of weight to the argument outlined in paragraph 6 of E(82)48: either wages councils have an effect on wages (in which case, they are damaging) or they do not (in which case, they are useless). On the other hand, they have been aware of possible political difficulties. First, there may be criticism to the effect that the Government is not concerned about low pay. Secondly, there is the argument advanced by the Secretary of State for Northern Ireland that the Government should not fight on too many fronts at once: the implication is presumably that the Government should at least wait, for example, until the Young Workers Scheme has established itself. This second line of argument, however, would be less relevant to a decision that the Government's aim should be to denounce International Labour Convention 26 in 1985.

12. A decision that the Government's ultimate aim should be abolition of the wages council system would not entail that nothing should be done in the interim to change it. But certain types of change could make eventual abolition more difficult. In particular, if the Government were to legislate in either the 1982-83 or the 1983-84 Session of Parliament (though no provision has been made for such legislation in the 1982-83 legislative programme), it might find it hard to defend the legislation as a mere stop-gap pending abolition after only two or three more years.

Immediate Action

13. You will probably wish to examine the various options that have been suggested:



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Option 1 (Obligation to take account of ability to pay and employment effects):

This requires legislation and would probably have little practical effect. But it might be useful in restating the Government's general philosophy on pay matters. Does this make it worth undertaking, either as an interim measure pending abolition or as a more lasting reform?

Option 2 (Abolition of two retail councils and two small ones):

Abolition of particular councils, if it can be justified by the criteria laid down under the existing system, would not obviously prejudice either reform or abolition of the system. It might indeed help pave the way for abolition, since it would reduce the coverage of the councils and allow the Government to argue that the system had outlived its usefulness. But it is not certain that the requirements of the existing legislation can be fulfilled. There is also a risk that the informal discussions with employers envisaged by the Secretary of State for Employment could leak. It might then be difficult for the Government to withdraw, even if the prospects for success looked poor.

Option 3 (As 1, with independent arbitrator):

This would accord well with the Government's views on the labour market. But it would be complicated (the Committee rejected a rather similar proposal on these grounds at its meeting on 26 January); and it would be hard to justify setting up such a system if the ultimate aim were abolition.

Option 4 (Declaration of intent to abolish system in 1985):

This would probably be welcome to the Government's supporters. But your colleagues may be unwilling to commit themselves so far ahead. The effects on the wages councils themselves would also need to be considered. On the one hand, as the CPRS suggests, it could have a useful impact on expectations; on the other, institutions under sentence of death do not always behave responsibly.

Other Options

14. Some members of the Committee may consider that other options should be examined. As the annex to this brief shows, there has already been a



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pretty full study, and you may not wish to prolong it. You may, however, wish to explore whether more could be done on appointments to the councils.

Agricultural Wages Boards

15. Depending on the course of the discussion, it may be unnecessary to consider this aspect. But if the Committee is disposed to favour significant modification of the wages council system, you will wish to ensure that the possible implications for the Agricultural Wages Boards are considered. It may be necessary for the Agriculture Ministers to be invited to submit advice to the Committee before final decisions are taken.

HANDLING

16. You will wish to ask the Secretary of State for Employment and Mr Sparrow to introduce their papers. The Minister of Agriculture, Fisheries and Food and the Secretary of State for Trade will have views, as the sponsoring Ministers, on the proposal to move towards abolition of particular councils. The Chancellor of the Exchequer will have views on the wages council system as it affects the labour market. Any questions on the Agricultural Wages Boards would be mainly for the Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland (who may also have views on the proposal to abolish the Flax and Hemp Council, since its main coverage is in Scotland).

CONCLUSIONS

17. You will wish the Committee to reach conclusions on the following:

(i) Is the Government's strategy towards the wages council system to be reform or abolition (when international obligations and legislative constraints permit)?

(ii) What, if anything, should the Government do in the short-term:

(a) legislate to impose a statutory requirement to take account of employers' ability to pay and effects on employment?



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- (b) take soundings of employers with a view to moving towards abolition of particular councils?
 - (c) legislate to couple (a) above with an arbitration procedure taking account of the effects of a prospective wages council award on employment?
 - (d) a declaration of intent to abolish wages councils when international obligations permit?
 - (e) any alternative, such as appointing members more likely to be sympathetic to the policy considerations which the Government regards as important?
- (iii) If none of these courses finds favour, should Ministers -
- (a) agree to let matters rest until the time comes to decide whether or not to denounce International Labour Convention 26?
 - (b) ask officials to study further options?
- (iv) Depending on the answers to (i) to (iii) above, are there any implications for the Agricultural Wages Board system which require either to be decided at the meeting, or to be the subject of further consideration by the Committee?

PLG

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Cabinet Office.
13 July, 1982



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Previous consideration of possible action on Wages Councils.

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Ministers have considered possible action to abolish wages councils, to reform them or to reduce their scope, on several occasions in the past. (E(EA)(80)9th and 21st Meetings; E(81)8th and 14th Meeting; and E(82)2nd Meeting). A wide variety of approaches, in addition to those considered in E(82)47 and 48 has been considered and rejected, at least as short-term possibilities. A brief summary of the approaches and the arguments relevant to them which appear to have weighed with Ministers is given below.

Complete Abolition

2. It would be in accordance with the Government's general political philosophy and its wish to reduce rigidities in the labour market to abolish the system of wages councils. On the other hand, it would arouse wide-spread criticism, not only from trade unions and the 'poverty lobby', but also from some employers, who would fear an extension of trade union influence. Perhaps most importantly, abolition of the wages councils without replacing them by some alternative mechanism (such as a statutory national minimum wage) would be contrary to our international obligations. The relevant International Labour Convention cannot be denounced until the summer of 1985.

Remove the power of Wages Councils to make Statutory Orders

3. It has been suggested that the Government should promote legislation to deprive wages councils of their power to make statutory - and therefore legally binding - orders. They would then have power only to make recommendations about wage rates, which employers would be free to accept or ignore. In substance, this is effectively the same as abolition; and much the same arguments apply.

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4. A variation of this approach was suggested by the CPRS in E(82)3. Statutory powers would be removed from wages councils; but a body such as the Central Arbitration Committee could be given a power to issue a wage-fixing order against an employer found guilty of exploiting workers by using collusion or monopsony powers. This appears to have been regarded by Ministers as too



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complicated. It is also not clear that it would be compatible with international obligations.

Remove one or more of the categories of young people; part-timers; and employees of small firms from the scope of Wages Councils.

5. Ministers have been particularly exercised over the possibility that wages councils, by pushing up the wages of young people as a proportion of adult wages, have worsened the problem of youth unemployment. They have also felt that the wages of part-time employees, employees in small firms and, to a lesser extent, young people are particularly unsuitable for determination by industry-wide institutions, which of necessity can take little account of individual circumstances. On the other hand, it has been argued that at least some of the categories considered are especially in need of protection; that the evidence that wages councils affect wage differentials is inconclusive; and that, in the particular case of part-time workers, most of whom are women, the Government might be accused both domestically and in Community institutions of discrimination against women. Again, however, the decisive argument may again be our international obligations: see the relevant passage of the main brief.

Limit increases in the rates payable to young people

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6. The Secretary of State for Employment proposed in E(81)127 that he should take powers enabling him to prevent wages councils from increasing statutory minimum rates for young people if the increase would leave them above a given percentage of the relevant adult rate. The percentage would be specified from time to time by Order. Ministers collectively saw serious practical disadvantages in this course: it would draw the Government into detailed consideration of the appropriate percentage of the relevant market rate; and some wages councils might respond, not by holding down the minimum rates payable to young people, but by increasing the rates payable to adults.