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Caxton House Tothill Street London SW1H 9NF

Telephone Direct Line 01-213.....6400.....

Switchboard 01-213 3000

The Rt Hon Nigel Lawson MP
 Chancellor of the Exchequer
 HM Treasury
 Great George Street
 LONDON
 SW1

cc N/O
 (2)
 Prime Minister

Mr Tebbit proposes to

denounce the ILOConvention on paymentof wages / cashless pay.

Mus 4/7

4 July 1983

D. Nigel
 PAYMENT OF WAGES

In correspondence last summer Geoffrey Howe and others agreed in principle with my proposal that we should repeal the Truck and related legislation on the payment of wages and introduce simpler but wider protections against arbitrary deductions from pay.

In preparing the ground for this we had a useful discussion at the January NEDC meeting and in March I issued a consultative document arguing the case for reform and parading several possible options.

The period for comment ended on 7 June but partly because of the election some responses were delayed. However we have had a substantial number of responses and on one aspect of the matter it is very important for us to take a decision quickly. Any real progress in this area seems to me to be impossible while we continue to be bound by our ratification of International Labour Convention 95 concerning the Payment of Wages. If we do not denounce this convention by 23 September this year we shall be tied by it for a further 10 years. As required by another convention I have consulted the TUC and CBI about its denunciation and my officials have discussed some technical points with ILO officials. If we are to denounce the convention - and for the reasons set out below I am sure we must, we need to tell the House of this by written answer before the summer recess.

The response to the consultative document show a clear majority for reform based on the proposals in the document with the bulk of respondents favouring repeal of the Truck and related legislation with the re-enactment of provisions about deductions from pay. A number of important bodies such as the CBI, the National Federation of Building Trades Employers, the Chemical Industries Association and the Association of District Councils favoured outright repeal without further legislation in the area of deductions. But the EEF made a positive response on deductions and the CBI expressed a willingness to have more detailed discussions on the form such protection might take if the balance of opinion favoured it. The balance did favour it and the recent publicity surrounding cash shortage deductions for petrol pump attendants convinces me that we must revise or retain the protections currently provided.

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There was little support for the options of widening the definition of 'coin of the realm' or of extending the four weeks period of notice for reversion to cash payment of wages. But the clearing banks, who oppose removing the right to payment in cash (on the grounds that it might provoke hostility to cashless pay and give them unwilling customers), favoured an extension of the period for reversion. Only the TUC, in notably reasoned terms, two individual unions and the Haldame Society of Socialist Lawyers were opposed to all of the options for change mentioned in the paper.

In addition to the options in the consultative document the TUC pointed to another option which can be summarised as 'amending the Payment of Wages Act 1960 to allow payment in specified non cash forms irrespective of the views of individual workers in circumstances where such payment is provided for by collective agreement'. This option does have the advantage of facilitating change to cashless pay in a way that would be consistent with our continued ratification of ILO Convention 95. But this course would give unions a potential right of veto on employers' proposals where they were recognised. They would demand a high price for agreement and prove reluctant in any case to agree to impose cashless pay on even a small minority of any group of members. It might be expected that they would generally contemplate only agreements providing a voluntary cash inducement for individual members. If all the benefits were taken up in this way nothing would be left for improving competitiveness. Other antiquated provisions would remain.

I am not therefore prepared to follow this course and subject to any comments received by 13 July I shall tell the House in a written answer on 20 July that we propose to denounce ILO Convention 95 by 23 September 1961 and that this denunciation would not come into effect until twelve months after it is registered. I shall also tell them that we propose, in due course, to introduce a bill to repeal the Truck and related legislation whilst providing for all workers some form of protection regarding deductions from pay. Further consultations will be held on the exact form such protection will take.

I am sending copies of this letter to the Prime Minister, other members of E(A) and Sir Robert Armstrong.

4 JUL 1993

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