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PRIME MINISTER

9 July 1984

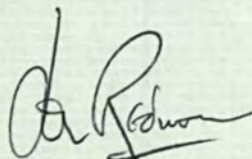
WAGES COUNCILS, JOBS AND THE LABOUR MARKET

E(A) is having another go tomorrow at tackling the Wages Councils issue. I attach Nicholas Owen's latest note which sets out the case in favour of abolition or substantial modification of these councils.

We are going to come under more pressure on the subject of jobs as the months advance and as the unemployment numbers stay high. The danger is that the momentum of the Jobs Seminar in May will be lost, and only a few announcements will dribble out over the next 6 months.

Why don't we set out a Green Paper on the functioning of the labour market, drawing together all the aspects that were discussed at the May Seminar, and which are now being worked on in the Department of Employment? This Green Paper, a discussion document, could include the work on Wages Councils, but set it in a broader and more sympathetic context.

Unless we have something positive to offer on jobs and the labour market, we stand to lose a great deal of political capital in this important area.



JOHN REDWOOD

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PRIME MINISTER

18 June 1984

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Your original intention was to abolish Wages Councils because they interfere with labour markets and involve unnecessary bureaucracy and compliance costs. If they push up wages, they price some people, and some firms, out of work; if they have no effect on wage levels, they are without any point at all, even to the employees covered by them.

Two kinds of argument have been advanced against abolition. It is politically damaging to appear to hit the low-paid, to achieve no great benefits. And abolition would stimulate union membership. *on relative?* The available evidence does not support the latter point. A study of the consequences of abolishing the Cutlery Wages Council in 1969, commissioned by the Department of Employment, indicated that union membership in the cutlery industry in 1977 was below the level claimed by the GMWU a year prior to abolition. There was some union recruitment among larger firms, but in firms with under 100 workers, there were no recruitment drives at all.

The only objection which stands up is the political one. Tom King has suggested a way of avoiding some of the undesirable features of the Wages Councils, without running up against this problem. Before there is any agreement to his approach, it has to be clear that what is proposed will work.

Limiting the Scope of Wages Councils

Limiting the scope of the Wages Councils to the minimum wage would reduce the burden of compliance for the employer, and the costs of policing for the Department of Employment. For example, the Retail Trades (non-food) Wages Council Order (enclosed) runs to 24 pages, plus 8 pages of guidance notes. But we ought also to recognise that the Orders have become so complex because both sides of the negotiation have an interest in such things as overtime rates, holiday pay, allowances of various kinds. If these are excluded from the scope of the Act, we can expect that the employees will direct all their efforts to raising the basic rates of pay, since it is only in respect of this element that the Order will be binding. This would push up rates, and distort negotiations.

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It would close off some options - eg lower rates of basic pay, but longer holidays and better allowances for non-social hours - which both sides may prefer.

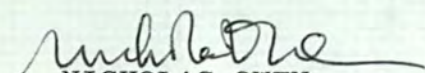
Youth Pay

We wonder whether imposing maximum rates for young employees, as a percentage of the adult rate, is within the Convention, or practicable. If a maximum is imposed which is low enough to do any good, eg 35 per cent of the adult rate, do we not come pretty close in practice to excluding young workers from the scope of the ILO Convention? The paper mentions that other signatories to the Convention set a floor for youth rates, but these countries - Netherlands and France - have national minimum wage systems. Could we impose minimum youth wages selectively to the trades covered by Wages Councils under the Convention? We may, in the end, have to denounce the Convention.

We would also face the practical problem of how to set these levels. Different trades would face different labour market conditions. Does Tom King envisage different rates for different trades, and revisions each year? We ought also to consider the point that an upper limit of youth wages may put upward pressure on the adult rate if this becomes the only way open to negotiators to increase minimum rates for young workers.

Recommendation

We recommend that Tom King's proposals are considered further as a possible alternative to abolition if, next year, that option appears to be not worth the political costs. Tom King should also be invited to report on the employment consequences of retaining the Wages Councils, in whatever form.


NICHOLAS OWEN