

Prime Minister 4



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Dear Robin,

... I attach a note by officials on Sir Hector Laing's ideas.

My Secretary of State met Sir Hector Laing recently and although he agrees that his proposals are very expensive, he has been considering whether the combination of large surpluses in pension funds and proposals in the Social Security Green Paper for flexible early retirement might not provide an opportunity for doing something in this field without incurring extra costs.

The Secretary of State will be considering such matters further and we will let you know if anything emerges.

Yours sincerely,
Iain Mackinnon

IAIN MACKINNON
Private Secretary

TWO-TIER BARGAINING AND EARLY RETIREMENT : NOTE ON
SIR HECTOR LAING'S LETTER

Two-tier bargaining

1 The main feature of two-tier bargaining is that new employees (often young workers, but not exclusively) are taken on at lower pay rates than existing employees. These arrangements may be permanent or temporary, where workers can achieve the full rate after a transitional period.

2 In America two-tier bargaining is still of relatively minor importance but is spreading, especially in non-manufacturing where the unions are weak. As yet there appears to be no instances of companies introducing two-tier bargaining in Great Britain. (The nearest thing to it is the new pay arrangements in the Electrical Contracting Industry establishing separate pay rates for new entrant trainees which are below the rates for existing apprentices.)

3 Two-tier wage bargaining offers the possibility of achieving more realistic pay levels which will promote the growth of jobs, especially, but not exclusively, for young people. Its attraction over alternative ways of achieving more realistic pay levels is that it does not require existing workers to make the sacrifice of accepting lower pay levels or settlements.

4 Sir Hector Laing argues that the Government has a role in developing two-tier bargaining through introducing it for its own employees. In each of the last 3 years cash increases in the pay of 16 and 17 year olds in the Civil Service have been deliberately held a little below those for adults (whose pay awards in recent years have been below inflation). It should be possible to go further in cutting pay in real terms while

recruiting the quality of staff required and increasing the number of young recruits and their opportunities.

Early retirement for men over 60 years of age

5 Sir Hector Laing has long advocated an early retirement scheme for men over 60 years of age who are members of an occupational pension scheme. The income of people retiring early would consist of the normal basic state pension paid early plus occupational pension. The jobs vacated, Sir Hector argues, would be filled by the unemployed (the work for the pensions inquiry suggests that 75% of the vacancies would be filled by the registered unemployed). The Treasury and the Department of Employment believe that Sir Hector's scheme would incur high public expenditure costs, and would be less effective in reducing unemployment than he believes.

6 To reach Sir Hector's eventual target of removing one million men from work would take at least six years. There are about 500,000 men over the age of 60 who are currently working and members of an occupational pension scheme. Depending upon the level of earnings cut off for this scheme, around 400,000 men may be eligible immediately. Over the next six years an additional 100,000 men may become eligible each year. The Treasury estimate that the net public expenditure cost of initially removing 400,000 men from employment could be between £2 and £3 billions in the first year (compared with Sir Hector's estimate of £1.5-£2 bn).

7 The payment of occupational pensions early would require additional funding for pension schemes or slower improvements of benefits. This could require an increase in employer and employee contributions and would be an additional burden on companies.

8 There is also room for doubt whether an early retirement scheme would lead to a proportionate increase in the demand for new workers. A study by the Institute of Manpower Studies indicates that employers who have used early retirement on any scale since 1979 have done so as a less contentious method of shedding labour than declaring redundancies: the average rate of replacement was only one in ten. French experience bears this out. There the retirement age was lowered from 65 to 63, with very little effect on unemployment.

9 Sir Hector Laing's proposals are very expensive because they provide for full payment of pension. The recent proposal in the Green Paper will be less attractive to individuals but also less expensive to the state.

10 Linking early retirement with the development of two-tier bargaining may, in some circumstances, increase the proportion of retired workers replaced because new entrants will be cheaper to employ. But it is by no means clear that firms which would make use of an early retirement scheme would also take advantage of the opportunities of two-tier bargaining.