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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

THE FAIR WAGES RESOLUTION

Memorandum by Secretary of State for Employment

I wrote to the Secretary of State for Industry on 15.12.80 attaching a report by my officials on the scope for "amending" or "repealing" the Fair Wages Resolution (FWR). The report was prepared in consultation with officials of other Departments, who generally endorsed its conclusions.

2. I made clear in my letter that my judgement of the balance of argument pointed towards leaving the Resolution unchanged, but that there was no need to come to a final decision now because in any case international obligations ruled out action before 1982/83. I therefore proposed that we should look at the matter again in about a year's time. In his reply of 12 January, however the Secretary of State for Industry dissented from this approach and suggested an early discussion in E.
3. The report by officials concluded that there are only two sensible alternative courses that might be adopted towards the FWR:
 - (a) to repeal the FWR completely after denunciation of ILO Convention 94 (which could not take effect before September 1983);
 - (b) to leave the Resolution unchanged.

The main arguments for and against these two alternatives are set out below.

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Option (1): Repeal

- 4. The main benefits of repeal are that:
 - (a) it would be consistent with our general policy of leaving pay and conditions to be determined by employers and unions, reflected in the recent repeal of Schedule 11 of the Employment Protection Act 1975;
 - (b) it would remove a possible source of increased costs on employers, particularly in industries like shipbuilding which have been the subject of a disproportionate number of claims in the past.
- 5. The drawbacks are that:
 - (a) repeal would attract considerable domestic criticism on the grounds that it involved breaching a very long-standing principle of Government contracting policy and would lead to charges that the Government was prepared to sanction "unfair" competition for Government contracts. The CBI have shown little recent interest in the subject;
 - (b) the practical benefits of repeal are likely to be small;
 - (c) we would need to denounce ILO Convention 94 on labour clauses in public contracts, which the UK was instrumental in framing and has ratified;
 - (d) unless we denounced the Convention out of time, which would be unprecedented, repeal could not in any case take effect before September 1983.

Option (2): Leave the FWR unchanged

6. The evidence in the officials' report suggests that the effect of the FWR since the formal pay policies pursued by the last Government came to an end has been minimal. Only 27 awards were made in 1980, of which 15 went against the claims. It is argued on the other hand that the current wide range of pay settlements, combined with pay restraint in the public sector, may provide the unions with more opportunity to make use of the FWR; and that they will be encouraged to do so by recent TUC advice to use the FWR where possible as a substitute for the repealed Schedule 11.

Other options

7. The Secretary of State for Industry has suggested that we should consult industry to establish whether any of the "interim" options listed in Appendix 1 of the report by officials are worth pursuing. I do not myself regard any of these options as being likely to have a material influence on the Resolution's impact, and at this stage I would

not wish to launch a further round of consultation, which could only give rise to acrimonious debate and produce no worthwhile result.

Timing

8. The earliest opportunity for denouncing ILO Convention 94 will come in September 1982, to take effect one year later. I recognise the case for giving industry as much notice as possible of changes affecting them. For most employers, however, the fate of the FWR will be a matter of little or no concern and we need to weigh the damage that will be caused by an extended period during which the unions will be able to launch criticisms of our proposals and a substantial rise in in FWR claims might be stimulated by the attendant publicity.

Conclusion

9. I think it is generally accepted that although there may be arguments of principle in favour of repealing the FWR, the practical benefits are debateable and in any case repeal cannot be effected before September 1983. The issues to be decided are, briefly:

(a) What are the likely practical and political effects of repeal?

(b) Do we in any case need to reach a decision now on what to do about the FWR, or is it not more advisable to defer a decision until closer to the time when we could set in motion the process leading to repeal (probably early 1982)?

10. My own judgement remains that, although we could no doubt withstand the criticism which would be attracted by an early announcement of an intention to repeal in 1983, I have not yet seen evidence of any practical benefits that would make this course worthwhile. I suggest we look at the issue again at the beginning of 1982, taking into account any changes in the incidence and effects of FWR claims between now and then.

Department of Employment

J P

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