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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

WAGES COUNCILS

Memorandum by the Secretary of State for Employment

I was invited by the Prime Minister to reconsider the options for abolishing or curtailing the wages councils, particularly in the light of high youth unemployment. A background note on the wages councils is at Annex A.

2. The future of the wages councils was reviewed by E(EA) Committee in May and November 1980, and by E Committee in April 1981. The main options considered were:-

- (a) To abolish the system of wages councils.
- (b) To exclude from their scope young people and part-time workers.
- (c) To remove the councils' statutory powers to set enforceable minimum rates.
- (d) To impose on the councils a duty to set rates to maximise employment.

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3. Low pay is an emotive subject, and we should avoid steps which offer little prospect of significant benefit or substantial support. The point is illustrated by the recent report on Homeworking by the Select Committee on Employment, which referred to the wages council system as "important protective legislation" and suggested there might be a need for more councils. My own view is that the wages council system does little good. My own view concluded that there is insufficient evidence of potential economic advantage to justify the controversial step of legislating to abolish the councils or to exclude particular categories from their scope (E(81) 14th meeting). The other options have been regarded as in various ways misconceived. I have examined these possibilities again, and I do not wish to contest the conclusions previously reached.

4. I believe, however, that we can and should take action in the area of most concern, namely the problem of narrow youth/adult pay differentials and their implications for job opportunities for young people. This is of course a matter which goes very much wider than wages councils, and we are pursuing it in the context of the New Training Initiative and by the introduction of the Young Workers Scheme. I believe that I should seek to reinforce these efforts by taking powers which would enable me to prevent wages councils from increasing statutory minimum rates for 16 and 17 year olds if the increases would leave them above a given percentage of the relevant adult rate, as specified from time to time by order.

5. My proposal would effectively freeze relatively high wages council youth rates until differentials widened to acceptable levels. Broad details are set out in Annex B. This approach is by no means without its problems and difficulties. But I believe it to be feasible and worthwhile; and it has the advantage of avoiding complications with ILO obligations. The Agriculture Ministers will need to consider possible implications for the Agricultural Wages Boards.

6. I invite my colleagues to agree that we should seek to amend the Wages Council Act 1979 accordingly, and that I should start consultations as soon as possible.

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Department of Employment
8 December 1981

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BACKGROUND NOTE ON WAGES COUNCILS

- 1 The Wages Councils Act 1979, a consolidating measure in a line of legislation dating back to the Trade Boards Act 1909, provides for wages councils where there is no adequate bargaining machinery and where pay is generally low. The 27 remaining councils cover about 2½ million workers most of whom are in retailing, hotels and catering, hairdressing and clothing manufacture. Some 400,000 establishments are affected.
- 2 Each council has an "employers' side" and a "workers' side", the members of which are normally appointed by employers' associations and unions nominated by the Secretary of State. The Secretary of State appoints three independent members to each council. There is provision for establishing Statutory Joint Industrial Councils (basically, wages councils without independent members) but so far these have not been used.
- 3 The wages councils are independent of Government, and Ministers have no powers to direct them or overrule their decisions. They are serviced by a small secretariat (Office of Wages Councils) staffed by DE officials.
- 4 The councils set legally enforceable minimum rates of pay and certain other conditions such as holiday entitlements. Councils have to publish their proposals for changes in advance and send copies to all employers known to be affected. Employers are required to display these proposals for their staff to see. Councils are required to consider any objections received before they can give effect to the proposals.
- 5 The Department's Wages Inspectors check compliance with the Orders. Most of the problems found are due to misunderstandings, and inspectors normally proceed by advice and persuasion. Prosecution is not considered unless there is clear evidence of repeated or deliberate offence. There were only 7 prosecutions in 1980. The maximum fines are £100 for underpayment; £400 for false records.
- 6 The Secretary of State has powers to establish, abolish or merge councils, or to vary their field of operation, after publication of a notice of intention. If objections are raised the proposal is referred to ACAS for inquiry.

NOTE BY OFFICIALS ON PROPOSAL TO LIMIT THE MINIMUM RATES SET BY WAGES COUNCILS FOR YOUNG PEOPLE TO A GIVEN PROPORTION OF THE ADULT RATE

1 This note examines whether legislation might be introduced to restrict the youth rates set by Wages Councils to no more than a given proportion of the adult rate. It deals only with Wages Councils. Possible implications for the Agricultural Wages Boards will need to be considered by the Agriculture Departments.

Attractions

2 The main attractions of the proposal are:-

- (a) it tackles an area of particular concern (youth rates) and is aimed at improving job opportunities for young people;
- (b) it retains minimum levels of protection against excessively low pay (minimum rates will still be set and enforced);
- (c) the percentage approach avoids the need for Government to specify cash figures;
- (d) conflict between some wages council youth rates and the Young Workers Scheme (YWS) earnings limits should be reduced;
- (e) unlike some previous suggestions for action on wages councils, the proposal appears to be compatible with international obligations.

Likely criticisms [Comment and counter arguments in brackets]

3 The main criticisms of the proposal seem likely to be on the following lines:-

- (a) It is an attack on those most vulnerable to low pay [but minimum rates for youths in wages council trades will still be set].
- (b) The existing rates, set by the trades, reflect the particular conditions obtaining in each trade, and the Government should not substitute their own judgement. [But where current rates are below the percentage limits they could remain so; and should an employer wish to pay more than the statutory minimum he would remain free to do so].

(c) It breaches the long-established principle that the councils should be free from Government interference. Councils will still be responsible for determining the actual rates set-up to the permitted maximum percentage in the case of youths⁷.

(d) It is inappropriate to single out wages councils because they are simply reflecting the general trend, and there is no conclusive evidence of substantial harm to employment. But there is considerable concern, and the general position is the more difficult to influence if narrow differentials are, for some sectors, enshrined in statutory orders⁷.

Problems

4 The first general problem-area is that direct Government intervention of this kind in pay determination inevitably creates rigidities, the consequences of which are unpredictable. Whilst Wages Councils themselves can be held to interfere with "the market", the fact remains that the rates and differentials are set by the employers and unions in each of the trades concerned. Government-ordained maximum percentage limits will undoubtedly be targets for those who are paid less when the system is introduced, and are likely to become norms which no Wages Council will in practice be able to vary downwards, regardless of circumstances in the particular trade. And where an employer who relies heavily on the published rates, with or without an established premium, encounters a need in his own particular circumstances to pay more than the Government-constrained minima he could face pressures from other employees for similar special treatment. There are other possible side-effects. A few councils do not pay the adult rate at 18 - for example, the two large retail councils do not pay it until 19. Government imposed limits for 16 and 17 year olds could have the effect of increasing the pressure within these councils for lowering the adult age to 18.

5 Next, there is the problem of deciding the percentage limits. This paper does not attempt to recommend the specific percentage differentials for 16 and 17 year olds that might be appropriate. Clearly the ratios to be specified need to be such as to make a significant impact, but the more they do so, the more the adjustment problem. For example, fixing the maximum at 60% for 16 year olds would, on present adult rates, lead to the virtual elimination of conflict

with the £40 YWS earnings limit, but would affect 8 out of 10 largest councils. Appendices 1-3 to this note draw together some relevant data (present wages council differentials, relationship with YWS limits, overseas comparisons, collective agreements etc) as an illustration of the kind of considerations which will be involved.

6 There is the question of phasing-in the new arrangements. It is assumed that the aim is to halt the trend towards narrower differentials (and, where necessary, reverse it) but to avoid anything appearing to result in Government-induced cuts in the actual pay of individual youngsters. This means avoiding measures which force councils to cut the present cash value of their rates, because the fact that this would not require employers to cut actual pay would be lost on many employers, workers and the public generally.

7 The best approach seems to be one which would 'freeze' relatively high youth rates until increases in adult rates had effectively widened differentials to a more acceptable level. Several possible ways of doing this have been looked at, bearing in mind the need to avoid making the present Wages Council Orders any more complex. We favour an approach which, from a given date, would prevent any council increasing the youth rates if, as a result, the 16 and 17 year old rates would be above a stipulated percentage of the adult rate.

8 Finally, it needs to be remembered that the introduction of legislation to limit the powers of Councils in one respect will inevitably increase pressures for more drastic action. Conversely, the low-pay lobby will be stimulated and a wide-ranging public debate could ensue, raising issues such as the case for a national minimum wage.

Form of legislation

9 Imposition of restrictions on youth rates will require primary legislation. The most sensible course might be to provide power for the Secretary of State to specify limits by order.

10 Devising an Order setting the limits will not be easy because not all councils have separate rates for 16 and 17 year olds. Some set a

a single youth rate, others relate rates to experience (eg stage reached in formal apprenticeship) and a few specialised grades have no separate youth rate. Presumably it would be necessary to avoid constraining piece rates linked to output.

Consultation

11 It would seem appropriate to invite views on the general proposition at least from the CBI and TUC, and presumably also from employer organisations and unions which are represented on Councils.

Conclusion

12 Despite the risks and difficulties the proposal seems feasible, and could be implemented on a fairly short time-scale. It would appear to avoid major difficulties over ILO obligations.

YOUTH RATES AS % OF ADULT RATES

	<u>16</u>	<u>17</u>	<u>Remarks</u>
Wages Councils	48%-80%	54%-90%	} See Appendix 2 for details.
YWS earnings limits as % of adult WC rates	64%-76%	73%-85% (£45 threshold)	
Collective agreements:-			
(a) Private sector (and public trading sector)	42%-70%	57%-80%	Sample of 20 voluntary agreements
(b) Local Authorities	50%-65%	60%-75%	Manual and building workers
(c) Industrial Civil Service	55%	75%	
Other Western European minimum wage legislation	40%-85%	65%-90%	See Appendix 3 for details.

Minimum Youth Rates and Relationship with YWS Limits (10 Largest Wages Councils)

<u>COUNCIL</u>	16 year old Wages Council rate as % of adult rate	£40 YWS earn- ings limit as % of adult rate	17 year old Wages Council rate as % of adult rate	£45 YWS earn- ings limit as % of adult rate
Retail Non-Food	60.0%	69.3%	70.0%	78.0%*
Retail Food	65.0%	70.2%	75.0%	79.0%*
Licensed Residential	75.0%	64.9%	80.0%	73.1%
Licensed Non-Residential	80.0%	66.1%	80.0%	74.4%
Licensed Place of Refreshment	65.0%	70.8%	75.0%	79.7%
Clothing Manufacture	63.0%	74.5%	77.0%	82.7%*
Dressmaking	48.0%	70.2%	54.5%	79.0%
Countryside	80.0%	71.4%	90.0%	80.4%*
Manufacture	62.3%	76.1%	71.4%	85.6%*
General Waste	67.4%	74.1%	85.2%	83.3%

Maximum:

These show the YWS earnings limits as a % of the adult wages council rate (although these limits are not age tied). Figures are based on current wages council adult rates. Councils marked * are likely to increase their adult rate before the YWS limits are revised, and so the percentage figure shown will need to be lower when the adult rates rise.

OVERSEAS COMPARISONS

<u>Country</u>	<u>% of adult rate at 16</u>	<u>% of adult rate at 17</u>	<u>Remarks</u>
France	80%	90%	National minimum. Youths qualify for full rate after 6 months experience in trade. Lower rates for apprentices.
Holland	40%	45%	National minimum wage.
Belgium	62½%	70%	National minimum earnings level.
Greece	84.8%	84.8%	National minimum earnings. Lower rates for manual apprentices.
Luxembourg	70.0%	80.0%	National minimum wage.
Portugal	50.0%	50.0%	National minimum wage.
Spain	61.2%	61.2%	National minimum wage.
Great Britain	48%-80%	54%-90%	Range of 10 largest wages councils. Details at Appendix 2.

Department of Employment

8 December 1981