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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

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WAGES COUNCILS

Note by the Central Policy Review Staff

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1. The memorandum by the Secretary of State for Employment (E(81)127) argues against abolition of wages councils, and against the options for modifications to the system (paragraph 2(b)-(d)). Instead he proposes to take powers to set an upper limit on the relativity between the minimum pay levels for youths laid down by wages councils and those laid down for adults; the aim would be to increase the youth/adult pay differential and so create more jobs for young people.
2. While sympathising with the Secretary of State's approach, the CPRS has reservations about the practical effect of this proposal. The limits for each trade would be arbitrary and difficult to set. Some councils might respond by pushing up the minimum rate for adults, instead of holding down the youth rate. This would have a perverse effect on employment and competitiveness.
3. In the context of the Government's economic strategy, the implementation of effective policies towards the labour market is a matter of urgency. We believe a more radical approach to wages councils is thus required; options for consideration are -
 - (a) abolition;
 - (b) removal of the councils' statutory powers to set minimum rates, combined with the introduction of an arbitration procedure to guard against genuine abuse of monopsony power by employers;
 - (c) if Ministers decide against these, a less drastic option would be to remove youth rates from the ambit of wages councils.

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Abolition

4. The economic case for abolition is strong. Fixing minimum wages by law does one of two things. If it has any effect, it prices people out of jobs. Or it may have no effect, in which case it is an unnecessary administrative burden.

5. We recognise, however, that to abolish wages councils would run into severe presentational/political problems. The ILO convention would have to be honoured, and actual abolition could only take place after an interval of some years. But eventual abolition might still be feasible as part of a package of measures (see paragraph 10 below).

Removal of Statutory Powers plus Safeguards against Exploitation

6. Under this option councils would be retained but their statutory powers to fix minimum pay would be removed. Councils would then have a consultative role, to aid collective bargaining in the light of market conditions. Independent members of the council would be available as conciliators and mediators: clarifying areas of agreement and disagreement, providing on request impartial information about labour market developments, and suggesting approaches to a settlement.

7. In addition, we suggest that independent council members should be given the role of monitoring employer behaviour to guard against abuse. Such a safeguard could be useful, at least presentationally and perhaps in reality. It would guard against rates of pay and conditions being held down below what is economically justified by an employer acting as a monopsonist in a local labour market, or by employers colluding to force down pay.

8. In any cases where abuse was alleged we suggest that a procedure should be devised to test the weight of evidence; a natural vehicle for such hearings would be the Central Arbitration Committee (CAC), part of the existing machinery under the Employment Protection Act. It would be incumbent on the plaintiff to prove that the low pay resulted from monopsony or exploitative collusion, which would generally be difficult to establish. The CAC might have the power to issue a wage fixing order against employers found culpable of exploitation. In effect, the option would introduce the principles of competition policy into the labour market.

Removal of Minimum Youth Rates

9. This option would be less drastic (and less effective), leaving councils to set minimum rates for adults, as now, but removing their power to set minimum rates for 16 and 17 year olds. As against the Secretary of State's proposal, it would avoid the need to set arbitrary relativities, and it could be defended as promoting employment opportunities for young people. Some safeguard similar to that in paragraphs 7 and 8 might need to be considered.

Labour Market Package

10. Any action on wages councils is likely to prove controversial, and would stand a better chance of acceptance as part of a balanced package of labour market measures of the kind being considered in MISC 14. If possible this should include some measure to strengthen work incentives by reducing the tax burden on the low paid.

Recommendations

11. We recommend that Ministers should -

- (a) reconsider the case for abolition or reform of wages councils in the context of a package of labour market measures;
- (b) if they decide against abolition, invite the Secretary of State for Employment to consider the practicalities of modifying the system to remove the power to fix minimum pay, subject to appeal to an appropriate body such as the Central Arbitration Committee where market forces can be shown not to be operating (paragraphs 6 - 8);
- (c) if they wish to confine action to youth rates, consider the removal of those rates from the control of wages councils as an alternative to the Secretary of State's proposal.

Cabinet Office
13 January 1982