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E(82) 2nd Meeting

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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

MINUTES of a Meeting held at
10 Downing Street on
TUESDAY 26 JANUARY 1982 at 4.30 pm

PRESENT

The Rt Hon Margaret Thatcher MP
Prime Minister

The Rt Hon Sir Geoffrey Howe QC MP
Chancellor of the Exchequer

The Rt Hon James Prior MP
Secretary of State for Northern Ireland

The Rt Hon Michael Heseltine MP
Secretary of State for the
Environment

The Rt Hon Patrick Jenkin MP
Secretary of State for Industry

The Rt Hon John Biffen MP
Secretary of State for Trade

The Rt Hon David Howell MP
Secretary of State for Transport

The Rt Hon Leon Brittan QC MP
Chief Secretary, Treasury

The Rt Hon Baroness Young
Chancellor of the Duchy of Lancaster

The Rt Hon Nigel Lawson MP
Secretary of State for Energy

The Rt Hon Norman Tebbit MP
Secretary of State for Employment

The Rt Hon Cecil Parkinson MP
Paymaster General

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon George Younger MP
Secretary of State for Scotland

The Rt Hon Norman Fowler MP
Secretary of State for Social Service

The Rt Hon Paul Channon MP
Minister of State, Department of
Education and Science
(Minister of Arts)

Earl Ferrers
Minister of State, Ministry of
Agriculture, Fisheries and Food

Mr J R Ibbs
Central Policy Review Staff

SECRETARIAT

Sir Robert Armstrong
Mr P L Gregson
Mr D J L Moore

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1. WAGES COUNCILS

Previous Reference: E(81) 14th Meeting, Item 2

The Committee considered memoranda by the Secretary of State for Employment (E(81)127) and by the Central Policy Review Staff (CPRS)(E(82) 3) on the future of Wages Councils.

THE SECRETARY OF STATE FOR EMPLOYMENT recalled that in April 1981 the Committee had agreed that it would not be practicable in the foreseeable future to introduce legislation to provide for the abolition of Wages Councils or of exclusions from their scope of young people or of part-timers; they had agreed that the right course was to press ahead as quickly as possible with securing reductions in the number of Councils and improvements in the system. Although he judged that the system did little good, he did not wish to reopen these decisions; indeed, because of obligations under the International Labour Organisation (ILO), it would not be possible to abolish Wages Councils until 1985. He did, however, recommend taking powers which would enable him to prevent 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. This change would be consistent with the Government's approach to the New Training Initiative and to the Young Workers Scheme where action was being taken to widen the present narrow differentials between the pay of young people and of adults.

MR IBBS said that, while the Central Policy Review Staff sympathised with the proposal recommended by the Secretary of State for Employment, they had reservations about its practical effect. 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, and this would have a perverse effect on employment and competitiveness. If abolition of Wages Councils was impracticable for the time being, it might be better to modify the system to remove the power to fix minimum pay, subject to appeal to an appropriate body where market forces could be shown not to be operating, or to consider the removal of youth rates from the control of Councils.

In discussion the following were the main points made -

- a. It was generally agreed that there were practical disadvantages in the scheme proposed by the Secretary of State for Employment for preventing Wages Councils from increasing statutory minimum rates for 16 and 17 year olds; the Government would be drawn into detailed judgements of what was an appropriate percentage of the relevant adult rate. It was also agreed that there were disadvantages in the Central Policy Review Staff's proposal to remove the power to fix minimum pay and then to provide for appeal to an appropriate body.
- b. Small firms were particularly critical of the Wages Councils system which they believed stopped them from employing as many people as they wished, particularly young people. On the other hand, these objections applied to businesses of all sizes and it would, therefore, be better and more defensible for any changes to apply across-the-board.
- c. The best course would be to consider further whether young people and possibly also part-timers could, without contravening the International Labour Organisation, be excluded from the scope of Wages Councils. Young people, whether under 19 or under 22, were a relatively small proportion of the total of employees covered by the system; it was not clear that their removal would be inconsistent with the International Labour Organisation obligations although this would need to be explored further.

THE PRIME MINISTER, summing up the discussion, said that the Committee agreed that, while it was important to widen the differential between the wages of young people and of adults, there were serious practical objections to the particular scheme proposed by the Secretary of State for Employment. Instead they wished the Secretary of State for Employment to consider further whether all young people under the age of 19, or all those under the age of 21 or 22, could be taken out of the Wages Councils system; in doing so, he should consult the Attorney General on whether such changes, or any variants of them, could be made without breaching International Labour

Organisation Conventions. He should also consider, in consultation with the Attorney General, whether part-timers could be excluded from the system or whether it would be possible to exclude only those part-timers within whatever age groups for young people could be excluded. The Committee recognised that the statutory arrangements for the Agricultural Wages Boards were different but the Secretary of State for Employment should consider with the Minister of Agriculture, Fisheries and Food, and with the other Agriculture Ministers as necessary, what were the implications for the Agricultural Wages Boards of any changes in the Wages Council system.

The Committee -

Invited the Secretary of State for Employment, in consultation with the Attorney General and the Agriculture Ministers, to consider further the possibility of changes to the Wages Councils system and the implications of such changes for the Agricultural Wages Boards, as indicated by the Prime Minister in her summing up to their discussion, and to report.

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2. FAIR WAGES RESOLUTION

Previous Reference: E(81) 8th Meeting, Item 2

The Committee considered a memorandum by the Secretary of State for Employment (E(82) 5) on the Fair Wages Resolution (FWR).

THE SECRETARY OF STATE FOR EMPLOYMENT said that he recommended the abolition of the FWR. To achieve this it would be necessary, after consultations with representatives of employers and workers, to have the change approved by Resolution of the House of Commons and to denounce the International Labour Organisation (ILO) Convention 94. The Convention could not be denounced before September 1982 and abolition would take effect one year later. These moves would be strongly criticised by the Trades Union Congress and others as encouraging lower wages; they would probably put their criticism to the ILO. The FWR was, however, clearly inconsistent with the Government's view, as expressed in the repeal in 1980 of Schedule 11 of the Employment Protection Act 1975, that pay and conditions should generally be determined by employers and employees in the light of their particular circumstances and of market forces. There were currently relatively few claims and awards under the FWR but this could well change and, even now, the FWR caused difficulties for individual employers. Unless the ILO Convention were denounced in the twelve months from September 1982, there would not be another opportunity to repeal the FWR, without infringing international commitments, until 1992. He would ensure that the consultations with representatives of employers would include not only the Confederation of British Industry but also the National Chamber of Trade, the Association of British Chambers of Commerce and representatives of small firms, and also those employers and unions who were affected by references to the FWR in various statutes.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that he agreed that there was no case in principle for keeping the FWR. On the other hand, the FWR was currently not used much and it did not appear to have any marked effect on pay or employment levels generally. It was, therefore, questionable whether the practical benefits from abolition were sufficient to justify the controversy and criticism which would be stirred up.

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THE PRIME MINISTER, summing up a short discussion, said that, while they recognised that moves to repeal the FWR would be strongly criticised by some, the Committee agreed with the Secretary of State for Employment's recommendations. Although there were currently few cases, the FWR had been used against British Shipbuilders and others, and its existence could lead to wages being unnecessarily high in regions where there was an ample supply of labour and a shortage of jobs. The Secretary of State for Employment should consider carefully the timing of the consultations and also the presentation of the case for abolition. It was important to bring out that the change was consistent with the Government's objective of pricing people into jobs.

The Committee -

Invited the Secretary of State for Employment to proceed with consultations leading to the abolition of the Fair Wages Resolution, as proposed in his memorandum E(82) 5, and to be guided by the Prime Minister's summing up of their discussion.

Cabinet Office

27 January 1982

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