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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

WAGES COUNCILS

Note by the Central Policy Review Staff

The burden of the memorandum by the Secretary of State for Employment is that the options open for reform of wages councils are, in the short term, very limited; moreover small changes in the system now would impair the chances of securing complete abolition when ILO obligations permit in 1985. Worries about presentation of the Government's strategy on low pay issues are also raised in the letter from the Secretary of State for Northern Ireland.

2. The CPRS agrees that the two options presented in E(82)47 have limitations.
3. Option 1 is to impose a statutory duty on councils, when setting minimum rates, to take account of employers' capacity to pay and of implications for employment. As the paper says, this is unenforceable and unlikely to have much effect. Councils may well argue that they already take employers' ability to pay into account. Do Ministers agree that it could nonetheless have "useful declaratory influence"?
4. Option 2, to abolish the two retail councils, does not require legislation, and it is proposed to take informal soundings among retailers. But this option carries the risk of an unhelpful ruling by ACAS, which would be embarrassing and could prejudice longer-term goals for reform.
5. In reviewing their policy towards low pay and wages councils, Ministers may find it helpful to reconsider the general issues and decide now on their longer-term strategy.

General Issues

6. In present circumstances, with unemployment high, the danger is that any system designed to maintain minimum rates of pay above "market" levels will reduce job opportunities. Either market rates

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will be unaffected by the minima (in which case the whole system is an unnecessary burden), or people will be priced out of jobs.

7. In theory, in a case where strong employers (individually or collectively) could freely recruit unorganised labour, it might pay the employers to restrict their recruiting in order to force down rates of pay to "sweated labour" rates. But such cases are probably rare and hard to identify in practice.

8. In general, Ministers need to get across the message that the only way of gaining any real improvement in low pay is to achieve better economic performance and a higher rate of productivity growth. Otherwise, to raise minimum pay rates artificially will reduce job opportunities for the unemployed.

Strategy

9. If Ministers accept this approach, they need to choose between two courses of action on wages councils:-

- (a) to make the system more responsive to employment needs; or
- (b) to aim towards abolition when the ILO convention can be denounced in 1985.

Options

10. Of the Secretary of State's two proposals, the statutory obligation (Option 1) is a move towards reform, and abolition of two councils (Option 2) a step down the road to total abolition.

11. If Ministers decide to aim at reform, the CPRS believes that Option 1 could be developed (at the cost of complicating the procedure) to make the employment obligation more effective and at the same time to guard against the theoretical objection in paragraph 7:-

Option 3 - adoption of Option 1 in E(82)47 combined with a disputes procedure; cases where members of a council alleged that minimum rates prejudice jobs would be referred to an independent central arbitrator. The arbitrator, having powers to set pay minima via the wages council, would require clear guidelines against which to judge whether a lower minimum rate of pay would promote employment. Subject to legal opinion, we do not believe that this system would be in breach of our international obligation.

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12. If Ministers decide to aim for abolition, the CPRS suggests a further option, which could be additional to or instead of Option 2:-

Option 4 - a declaration of intent to abolish councils when international obligations permit; this would attract criticism from the low pay lobby but could have a useful impact on wage expectations.

Conclusions

13. We suggest that Ministers should reach decisions as follows:-

- (a) Do they wish to aim at reform, or abolition, of wages councils?
- (b) If reform, do they prefer the statutory obligation in Option 1, or its extension in Option 3?
- (c) If abolition, do they wish to go for partial abolition now (Option 2), and/or a declaration of intent on total abolition (Option 4)?

Cabinet Office

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