



Prime Minister

We are already

Treasury Chambers, Parliament Street, SW1P 3AG pushing the point  
01-233 3000

PRIME MINISTER

at X, following several  
questions at last Wednesday's  
Self Employed Federation lunch.

To note.

WAGES COUNCILS

MS 19/1

No: now planned  
for 26 Jan  
or 2 Feb  
MS

At the meeting of E Committee on 19 January we are due to discuss Norman Tebbit's paper (E(81)127). It recommends that powers should be taken to prevent wages councils from increasing statutory minimum rates for 16 and 17 year olds to more than a given percentage (to be specified by order) of the adult rate. But it does not re-examine the arguments for more radical action.

2. We badly need to improve the working of labour markets, so that people can get jobs at wages which employers can pay. By pushing wages above market levels, wages councils obstruct this: if they didn't they would not fulfil their intended purpose, and justify annual administrative expenditure of about £3½ million. Perhaps their effect is only at the margin - that was I believe the conclusion of a 1980 Department of Employment study. But the "housemaid's baby" defence is always unconvincing.

3. I can see that early abolition of the wages council system might cause complications, e.g. with ILO. But I think that we ought to be taking whatever steps we can to limit the damage it does. Could we more rapidly reduce the number of councils? Could the criteria for selecting independent members give greater weight to the need for an appreciation of market and employment factors? Is there a case for a right of appeal to the Secretary of State on the grounds that employment will be adversely affected by particular wages council decisions?

4. On the specific issue of young workers I think that the proposal in E(81)127 would on balance be beneficial, though there

/is a risk



is a risk that it might exert some upward pressure on adult rates as well as downward pressure on youth rates. But I would favour going further and removing young people (and part-time workers) from the scope of the wages council system altogether. I would be surprised if our ILO obligations were so unequivocal as to preclude even this marginal reduction in the scope of the system.

5. I am copying this minute to the other members of E Committee and to Sir Robert Armstrong and Mr Ibbs.

(G.H.)

18 January 1982

FILE



ds

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10 DOWNING STREET

From the Private Secretary

21 January 1982

cc CPRS  
CO  
MOT  
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Wages Councils

The Prime Minister was grateful for the Chancellor's minute of 18 January about Wages Councils.

Handwritten initials 'GF' and a vertical line.

The Prime Minister has noted the Chancellor's views, which will be for discussion at the meeting of E Committee scheduled on Tuesday 26 January.

I am sending copies of this letter to the Private Secretaries to the other members of E Committee, David Wright (Cabinet Office) and Gerry Spence (CPRS).

M. C. SCHOLAR

John Kerr, Esq.,  
HM Treasury.

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cc A. Auguid  
J. Veneker

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**ACTION**

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15/1/82  
Mrs  
Prime Minister (4)

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MISC 14(82)1

You may like to glance at the COPY NO. I have given on in this

15 JAN 1982

CABINET

Committee the Chancellor chairs.

MINISTERIAL STEERING GROUP ON GOVERNMENT STRATEGY

Misc 18/1

THE LABOUR MARKET : MEASURES TO PROMOTE EMPLOYMENT

Note by the Chancellor of the Exchequer

I have the EPAS paper with the letter. Take in committee - include industrial links & have clear figures - not

Background

1. Cabinet agreed in June 1981 that MISC 14 should consider ways of further reducing hindrances to employment. This paper reviews progress on that remit and suggests how we might take the work forward.

2. We have already taken important decisions relevant to the labour market since July. These include elements of the July employment measures; the forthcoming legislation on industrial relations; and the further measures on training which the Secretary of State for Employment announced recently.

3. Work has been completed or commissioned in a number of other areas. The Secretary of State for Employment has circulated E(81)127 which reconsiders options for abolishing or curtailing Wages Councils, and has supplied the report on procedures for matching labour supply with market needs (MISC 14(18)12). Other work in hand includes the follow-up to the recent report on arbitration arrangements in the public sector; a DHSS assessment of whether any benefit changes are needed to facilitate part-time work; and, within the MISC 14 context, further studies on education/industry links, the

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Employment Transfer Scheme and housing and labour mobility.

4. There remain however further ideas which merit consideration. A note by Treasury officials in the late summer identified certain possibilities (listed at Appendix A). Some have since been examined and rejected for the present - examples are the Layard type employment subsidy and raising the lower earnings limit for the payment of National Insurance Contributions. The annexes to this paper (prepared variously by Treasury, No.10 Policy Unit and CPRS) examine some of the other proposals. Each is designed to help bring about a more flexible labour market by putting downward pressure on labour costs through one or more of the following mechanisms:

- (i) the removal or modification of institutional arrangements which underpin too-high wage levels;
- (ii) an increase in the effective labour supply - those willing to work at a particular wage level. This should enable a given demand for labour to be satisfied at lower average wage levels;
- (iii) the direct removal or reduction of certain non-wage 'overhead' costs of employing labour.

#### The Labour Market and the Economic Strategy

5. The objective is to increase the efficiency with which the domestic economy uses labour resources, so as to lower unit costs, increase our international competitiveness and reduce unemployment.

6. There is ample evidence of the need for such action (and for measures to reform many of our product markets as well). The underlying trend in unemployment has been upward since the mid-1960s. This cannot be explained, over so long a period, by any falling off in the pressure of demand for labour: there has been no matching trend in vacancies or skill shortages. It can be accounted for only by obstacles which prevent wages from moving towards market-clearing levels.



25/1 ds

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*From the Private Secretary*

MR. SPENCE  
CENTRAL POLICY REVIEW STAFF

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The Labour Market :  
Measures to Promote Employment

The Prime Minister saw over the weekend the MISC 14 paper circulated last week on measures to promote employment and improve the working of the labour market (MISC 14(82)1).

The Prime Minister has commented that she hopes that the CPRS paper will be clearer and more positive, and that it will take in the views of outside economists and industrialists. She made this point in particular in relation to paragraph 1 of annex 5 to the paper. She also hopes that the figures in the work undertaken by the CPRS will be clearer and more up to date.

M. C. SCHOLAR

25 January 1982

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