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Prime Minister (2) Incl Pol
You will be discussing

first with Alan Walters and
4 June 1982

Norman Tesler Men at E.

MUS 11/6

Qa 05947

To: PRIME MINISTER

From: JOHN SPARROW

Wages Councils

1. We have been considering the scope for introducing regional minimum wages in response to your query, conveyed in the letter of 24 May from your Private Secretary to mine.
2. Under present arrangements, wages councils make only limited use of their ability to set different minimum rates in different parts of the country: some councils, for example, prescribe the equivalent of a London weighting applied to national minimum pay rates. If the aim is to reform the system, rather than abolish it, councils need to be encouraged or obliged to set minimum rates which help to "clear the labour market". This implies that minima should be lower in areas of above-average unemployment.
3. The available options to introduce a measure of regional differentiation are limited and, in practice, the CPRS believes that only two are worth considering.
4. The first is to impose on councils a statutory duty, when setting minimum rates, to take account of geographical variations in the rate of unemployment, which reflect imbalances in the demand for and supply of labour. We would envisage this reform being combined with the option described in the memorandum by the Secretary of State for Employment (E(82)47) - to impose a duty on councils to consider employers' capacity to pay and the implications for employment of minimum pay levels.
5. The pressure that such a duty would put on councils to reduce minima in areas of high unemployment could be increased if the Government itself took steps to influence the climate of pay bargaining by introducing greater regional variation in actual pay levels, notably in the public sector

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6. The results nevertheless may be limited. The statutory duty is unenforceable, and there is no guarantee that councils would lay down different regional pay minima in the face of strong pressures for pay comparability across the country. The example of the separate wages council system in Northern Ireland is not encouraging in this respect: in those councils with Great Britain equivalents, unions press for, and appear to secure, minimum rates of pay similar - in some cases identical - to those in Great Britain.

7. There may be advantage in a second option which seeks to reinforce the modest reforms discussed above by combining them with a disputes procedure (described under option 3 in the CPRS paper on wages councils, (E(82)48). Cases where members of a council allege that minimum rates prejudice jobs would be referred to an independent arbitrator who would have the power to set new pay minima, regionally-differentiated as required, via the appropriate wages council.

8. To be successful, this option requires that clear guidelines be laid down against which the arbitrator is bound to judge whether lower minimum rates of pay would promote jobs. The guidelines would therefore include consideration of the degree of excess supply of labour in different regions, creating a presumption - which needs to be explicitly stated - that minima should be reduced in areas of high unemployment.

9. In general, the CPRS believes that the economic case for reforms of this sort, as opposed to abolition, is weak; reform is in practice defensible only as a means to avoid the political difficulties associated with abolition, which is the preferable course of action on economic grounds. It is, of course, open to Ministers to consider short term reforms prior to eventual abolition, which will be possible if the ILO Convention is denounced in 1985, but in view of the political problems which would beset even modest temporary changes, this game may not be worth the candle.

10. If the wages council system were abolished, one is still left with the problem of the "benefit wage floor": minimum rates of pay will tend



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to emerge as a result of the interaction between unemployment-related benefits and the tax system. This is a complicated topic which the CPRS will be considering in its report on unemployment, to be delivered by the end of August. The aim will be to suggest reforms that will encourage greater pay flexibility, including flexibility across regions, together with safeguards against poverty.

11. I am sending copies of this letter to Members of E Committee and to Sir Robert Armstrong.

GB.