

Prime Minister

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In addition to the points raised by Oliver, I feel the case for devaluing the Convention is not made forcefully enough. Whether the Government goes for abolition; some reform or abolition of some councils and reform of the rest (an option not covered), devaluation is an essential first step.

Agree these comments be put to Mr King.

PRIME MINISTER

Yes - vigorously

14 March 1985

AT 1513

WAGES COUNCILS

Also Oliver's point on the timing

AT 1513 pages

(Wages Councils 255)

Tom King's paper on Wages Councils presents the options clearly. But it does not make the argument against the Councils as forcefully as it should.

MT

The argument is:

- i. Either Wages Councils have no effect on wages, in which case, they are a wholly unnecessary bureaucratic apparatus;
- ii. Or they force wages up, in which case they drive people out of work. At a time of high unemployment the first priority must be to create more jobs: this makes it right to remove the Councils if there is the slightest risk that they are impeding job-creation.
- iii. In any case, the benefit system - which did not exist when the Wages Councils were invented - is a far more sensitive method of protecting the people who most need help: unlike the Wages Councils, it provides a safety net for families which cannot earn enough to survive, without making it impossible for young, single people to find jobs at low pay.

Not so -
Suppl. would plus
many levels, plus
focus on wages.

These points should be robustly set out in the Paper.

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D.B.

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Evidence

There should also be a clear exposition of the academic evidence that the Councils impede job-creation. There are two major omissions:

- a. D/Emp economists are working on the effects of Wages Councils on jobs. It is too soon to judge its value. It should be given top priority so that any useful results can be used in the Paper.
- b. Even the most pessimistic estimates, produced by Neil Kinnock's economic adviser, Mr Neuberger, suggest that abolition of the Councils would increase employment. A Treasury study, which uses the same method as Mr Neuberger, concludes that, over a number of years, abolition might lead to 50,000 or more new jobs. This study ought to be checked and completed in time for the Paper.

There are also examples of people - particularly young people - who have been thrown out of work because of Wages Councils. And the recent 8.3% award by the Agricultural Wages Council is certainly not going to help employment on the farms.

Timing

The Paper presents the 'harsh' side of the Government's jobs policy. This is matched by the 'soft' job-creation measures, such as the YTS and the CP, which are announced in the Employment White Paper. It is therefore essential that the two documents should be published simultaneously and under a single Press Notice; otherwise, journalists will fail to see the coherence of the package.

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CONCLUSION

We recommend that you should:

1. welcome the Paper;
2. stress the need for a robust presentation of the argument against the Councils;
3. suggest that Tom King should include a clear exposition of the academic evidence; and
4. emphasise the importance of issuing this document at the same time and under the same Press Notice as the Employment White Paper.

Oliver Letwin

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