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CABINET

MINISTERIAL COMMITTEE ON ECONOMIC STRATEGY

LETTERS TO CHAIRMEN OF PAY REVIEW BODIES

Note by the Secretaries

At the meeting of the Committee on 16 December (E(80) 44th Meeting, Item 1) it was agreed that the Chairmen of each of the Pay Review Bodies should be seen by Ministers, and that these meetings would be followed up by letters. It was also agreed that the terms of the letters should be considered by the Committee.

The meetings will be held within the next few weeks so drafts of the follow-up letters, prepared after consultation between officials of the Departments concerned, are attached. These will require detailed amendment in the light of the meetings, but the Committee may wish to consider at this stage whether their general approach is right.

Signed ROBERT ARMSTRONG
P Le CHEMINANT
D J L MOORE

Cabinet Office

12 January 1980

SECRET LETTER TO TSRB

We had a most helpful discussion on 15 January about the Review Body's current study, under its standing terms of reference, of the remuneration of the top salaries^{group}. I think it would be right for me to record the Government's position; and, in view of the public interest in the matter, I am arranging for this letter to be published.

The Government's overriding economic priority is to reduce inflation. To that end, it is determined to secure a progressive reduction in monetary growth and to pursue firm fiscal policies consistent with that course. It is of cardinal importance that the trend of wages and salaries should not lag in response to the prospect of lower monetary growth and lower inflation - the consequence of a delayed or inadequate downward change in the rate of pay increases is that employers can no longer afford to maintain previous levels of employment and unemployment mounts, as we have recently been seeing.

These considerations limit what the country can afford to pay by way of pay increases to those in the public services. It would be wrong for those in the public services to be treated in a way which would make the transition to lower levels of inflation in the private sector more difficult. This applies to the pay of the top salaries group no less than to that of others. When many workers in the private sector have to accept modest pay increases, or are even losing their jobs, it is right that pay increases for people in the public services should also be restrained.

The Government therefore asks the Review Body to take full account of these considerations in framing its eventual recommendations. In particular, it looks to the Review Body for advice in the light of its publicly declared policy on cash limits for the financial year 1981-82. It would assist the Government in reaching its conclusions to have advice on the appropriate distribution of a hypothetical sum which would derive from average increases not exceeding 6% across the group as a whole.

DDRB

DRAFT LETTER TO DDRB

We had a most helpful discussion on 21 January about the Review Body's current study, under its standing terms of reference, of the remuneration of doctors and dentists. I think it would be right for me to record the Government's position; [and, in view of the public interest in the matter, I am arranging for this letter to be published].

The Government's overriding economic priority is to reduce inflation. To that end, it is determined to secure a progressive reduction in monetary growth and to pursue firm fiscal policies consistent with that course. It is of cardinal importance that the trend of wages and salaries should not lag in response to the prospect of lower monetary growth and lower inflation - the consequence of a delayed or inadequate downward change in the rate of pay increases is that employers can no longer afford to maintain previous levels of employment and unemployment mounts, as we have recently been seeing.

These considerations limit what the country can afford to pay by way of pay increases to those in the public services. It would be wrong for those in the public services to be treated in a way which would make the transition to lower levels of inflation in the private sector more difficult. This applies to the pay of doctors and dentists no less than to that of others. When many workers in the private sector have to accept modest pay increases, or are even losing their jobs, it is right that pay increases for people in the public services should also be restrained.

The Government therefore asks the Review Body to take full account of these considerations in framing its eventual recommendations. In particular, it looks to the Review Body for advice in the light of its publicly declared policy on cash limits for the financial year 1981-82. It would assist the Government in reaching its conclusions to have advice on the appropriate distribution of a hypothetical sum which would derive from average increases not exceeding 6% across the group as a whole.

AFPRB

DRAFT LETTER TO AFPRB

1. We had a most helpful discussion on 21 January about the Review Body's current study, under its standing terms of reference, of the remuneration of the Armed Forces. I think it would be right for me to record the Government's position; and, in view of the public interest in the matter, I am arranging for this letter to be published.
2. The Government remains committed to maintaining the pay of members of the Armed Forces at levels comparable with their civilian counterparts and to strengthening the nation's defences. It therefore looks to the Review Body once again to recommend up-to-date military salaries based on the levels of appropriate outside earnings.
3. At the same time the Government's overriding economic priority is to reduce inflation. To that end it is determined to secure a progressive reduction in monetary growth and to pursue firm fiscal policies consistent with that course. These policies are already producing a downward trend of pay settlements in both the public and private sectors and it would be wrong for this trend not to be fully reflected in the AFPRB's recommendations for next April.
4. Moreover, at a time when so many workers in both the public and private sectors are losing their jobs, it is important that the relative security of employment enjoyed by members of the Armed Forces should be taken fully into account, along with any other differences in the conditions of service between the Forces and their civilian counterparts.
5. It is the Government's view that it would be wrong for those in the public services to be treated in ways which would make the transition to lower levels of inflation in the private sector more difficult. This applies, subject to the Government's commitment, to the pay of the Armed Forces no less than to that of others. I would be grateful therefore if the AFPRB would take account of these considerations in framing its eventual recommendations.