CAB 128/46

Closed until 2001
CAB 128|46

CLOSED UNTIL
2001
These considerations had a direct bearing on the phasing of the wage settlements now in question. If it was indeed the case that further concessions of the kind advocated by the responsible Ministers might provoke an economic crisis requiring further measures of restriction, it would probably be desirable, on balance, to try to defer such measures, if possible, until after the General Election. If the Labour Party were then returned to power, it would no doubt be distasteful to have to introduce a policy of restriction immediately thereafter; but this situation would have to be faced. If, on the other hand, they lost the Election, they might do so by only a narrow margin; and in that case the Conservative Party, who would then constitute the Government, would have to shoulder the responsibility for dealing with the potentially inflationary problem which they would have inherited, a problem which they would probably find it impossible to resolve consistently with their declared policies in other fields. In either case the Labour Party might be better placed than if they had been compelled to introduce fresh disinflationary measures before appealing to the country. On this basis the Cabinet should consider how the phasing of forthcoming wage settlements - particularly as regards the choice of effective dates for their second stages - might contribute most effectively to a process designed to defer for as long as possible the need to introduce renewed measures of disinflation.

THE CHANCELLOR OF THE EXCHEQUER said that there were certain risks in any course of action which would merely seek to postpone until after a General Election the action necessary to deal with the situation which might be created by
excessive wage settlements. The Government might be unable to adhere to the timetable involved; and in that event they might be compelled to appeal to the country at a time and in circumstances which in other respects would be unpromising. Moreover, the economy would be in an increasingly vulnerable condition during the whole of the period in question; and the Government would be putting at risk the economic recovery which they had now achieved after several years of great difficulty and anxiety. It could be argued to be better for the Labour Party that they should lose the next Election but should leave behind them a record of sound management of the economy than that they should put that record at risk in order to achieve an electoral victory which might be no more than marginal. He could not endorse this course; and for the reasons which he had given earlier in the discussion he would judge it wiser to continue to resist excessive wage claims. Until recently he had thought it possible to accept a degree of relaxation of the prices and incomes policy which might result in a 10-12 per cent rate of wage increase. But this had proved to be feasible for only a short period; and now that claims were running at a 20 per cent rate of increase it must be made apparent that the Government were not prepared merely to acquiesce in this tendency but were determined to bring it to a halt before the situation deteriorated still further. It was not sufficiently realised that all the interests now before the Cabinet had already received substantial wage increases during the last four or five years; and a more determined attempt should be made to convince public opinion that the public sector had neither been unfairly treated in the matter of wage increases nor been allowed to fall so far behind the private sector as was commonly supposed.
The Cabinet should take particular care to prevent any disclosure of the fact that their discussion had involved, among other things, a reference to the possibility of a renewed threat to the strength and stability of sterling.

Cabinet Office, S-7-W-1.

12th February, 1970
This note records part of the discussion on the above item which is not referred to in the minutes of the meeting.

THE LORD PRESIDENT said that, if the maximum growth rate which was consistent with stability in the balance of payments was the average of 3½ per cent per annum postulated in the report by the Medium Term Assessment Committee annexed to SEP(67) 41, the Government could not escape the dilemma of being compelled either to restrict personal consumption to a degree which would be unacceptable or to reduce expenditure on social services in a way which would be inconsistent with the Government's philosophy and with their political commitments. The only way of escaping from this dilemma was to secure a higher growth rate. This meant that we must devise policies to secure an increase in exports and a reduction in imports. There was no sign that existing policies were likely to achieve this; and we should therefore re-examine the desirability of more drastic changes in policy. He was not arguing that a change in the parity of the pound was necessarily the right solution; he was only suggesting that a thorough examination of this question was desirable before economic strategy for the medium-term was settled.

THE PRESIDENT OF THE BOARD OF TRADE said he did not believe that devaluation would solve the problem. Nevertheless, he agreed with the Lord President that existing policies seemed unlikely to ensure satisfactory economic progress: it seemed more probable that they would compel us to run the economy at a level of demand which would entail under-use of resources, high unemployment and low investment. Some new departure in policy might therefore be needed; and quantitative restriction of imports was a possibility. He did not advocate that this should necessarily be considered now; but it should be re-examined before long unless some evidence was forthcoming that existing policies would lead to a more acceptable economic prospect than at present seemed likely.

In discussion, it was pointed out that the Cabinet had discussed the question of parity as recently as the meeting at Chequers on 30th April. No useful purpose would be served by reverting to this issue, particularly in view of the risks which could arise if it were reopened and this became known. There were no conclusive grounds for thinking that devaluation would make possible a higher growth rate and hence a more rapid increase in personal consumption and public expenditure. Moreover, devaluation could only achieve the desired effects on the balance of payments if it were accompanied by a considerable measure of deflation, including higher taxation. It would therefore entail a real reduction in the standard of living, which would be resented by public opinion. The extent of the benefit to our exports which might accrue from devaluation was problematic, since many exporters might simply absorb the increased profits instead of reducing prices and expanding sales abroad.
A recent poll of informed opinion showed that, while a majority of economists were in favour of a change in parity, the greater number of bankers and industrialists were equally opposed to it. So were the general public, on grounds that it was domestically painful to devalue the currency: even if the issue was imperfectly understood, the conclusions reached in that respect were sound enough. In any case, a decision to change the parity could only be taken in the light of international considerations, in circumstances in which the credibility of the Government's action would be accepted, and not simply on the grounds of the state of the domestic economy.

23rd June, 1967
In the course of the discussion on incomes policy THE PRIME MINISTER invited the Cabinet to consider the wage claims before them not only on their individual merits but also in terms of their political implications during a period in which the Government must face an approaching General Election. If excessive wage settlements provoked a new economic crisis of a kind requiring fresh measures of restriction or an autumn Budget, the Government's freedom of electoral manoeuvre could be seriously affected; and this danger would be aggravated if international speculation about the renewal of inflationary pressure in the United Kingdom reached a level at which the stability of sterling came under renewed threat. In considering the current wage claims, therefore, the Cabinet must weigh carefully the implied risk that they might provoke a revival of demand inflation. The risk of cost inflation could be held to be no less serious; and, although the wage claims under consideration, being confined to the public sector, might be thought to have relatively little relevance in this context, this argument would be nullified in so far as they set a precedent for comparable claims in the private sector. The economy could not stand a dock strike or a seamen's strike. But, if this was so, and if it followed that the Cabinet would have to yield in the face of a threat of such a strike, they should avoid, so far as possible, any action in relation to the public sector which might provoke or aggravate demands for unacceptable wage claims in the private sector.
THE PRIME MINISTER said that, during his absence on his visit to Nigeria, a political situation had developed, initially within the Parliamentary Labour Party (PLP) and subsequently on a nation-wide scale, which clearly required the firmest handling by the Government. He himself intended to give a clear lead for this purpose; but he would need the full support of the Cabinet, acting in complete unity.

There had for some time been a growing tendency for some Ministers to act in ways which called in question the collective responsibility of the Cabinet, in so far as they had apparently felt free, in their personal dealings both with members of the PLP and with the Press, to dissociate themselves from certain of the Government's policies and to allow this to be known to outside bodies, particularly the Trade Unions, with whom their colleagues were often conducting difficult and delicate negotiations in the name of the Government as a whole. Before a decision was reached on any item of Government policy a Minister was entitled to defend his own point of view within the Cabinet as strongly and persuasively as he wished. But once a decision had been taken the principle of collective responsibility required every member of an Administration to endorse it and to defend it to any outside body on any occasion, whether private or public. This remained true even if the Minister was himself a member of the outside body concerned. There was no objection in principle to Ministers retaining affiliations of this kind provided that no conflict of interest or allegiance resulted. But this proviso was especially important in the case of Ministers who were members of the National Executive Committee of the Labour Party (NEC), where any clash of loyalties was liable to be particularly embarrassing. It had to be recognised that the NEC's concept of its relationship to the Parliamentary Party had changed since the Labour Party became the Government Party. During the Labour Government of 1945-51 the Executive would never have sought to enforce a decision of the annual conference of the Party on the Government. And even in 1960, when the Labour Party were in Opposition, the Executive had refused to try to impose the decisions of the conference on the PLP. Now, however, it was seeking to assert a right to withhold support from the Government on issues on which the annual conference had not yet expressed a view.
It would be unfortunate if circumstances developed, perhaps later in the year, in which it proved impossible to deal with this situation except by means of a ruling that no member of the Cabinet might offer himself for election to the NEC. He himself would greatly regret it if he were forced to give such a ruling, since the result would be not only to weaken the links between the Government and the NEC but also to reduce the latter to a body which was competent merely to discuss and to protest but not to exercise influence or to accept responsibility. Nevertheless, this situation could be avoided only if Ministers themselves recognised and accepted that, where any conflict of loyalties arose, the principle of the collective responsibility of the Government was absolute and over-riding in all circumstances and that, if any Minister felt unable to subscribe to this principle without reservation, it was his duty to resign his office forthwith.

He regretted that he had had to reaffirm this doctrine and to emphasise its correct interpretation in relation to membership of the NEC. But recent events had left him no alternative; and, since NEC membership was not confined to members of the Cabinet, he would arrange to draw the attention of all members of the Administration to the principle involved. For this purpose he must formally invite the Cabinet to endorse his statement as the definition of a code of conduct to be observed by all Ministers in relation to the collective responsibility of the Government. Thereafter it would be necessary to give further consideration to the best means of improving communication between the Government and the PLP and restoring the morale of the Party as a whole.

In discussion reference was made to the meeting of the NEC on Wednesday, 26th March, at which the Home Secretary had voted for a resolution which was at variance with the Government's policy on industrial relations, as recently published in the White Paper "In Place of Strife" (Cmnd. 3888). THE HOME SECRETARY said that in his view there had been only a marginal difference between the attitude which he had adopted at the NEC meeting and the attitude adopted by the First Secretary of State when she had spoken in defence of the White Paper. He would ask colleagues to remind themselves of the speeches of the First Secretary and her Parliamentary Secretary during the debate on the White Paper in the House of Commons. She had clearly said on that occasion that its proposals were a matter for discussion with the interests affected and might therefore need to be amended before legislation was introduced. Unless this offer was meaningless and it was now intended that the Government would not in any circumstances be prepared to modify the proposals in the White Paper, there was clearly scope for compromise. This was all that he had sought to achieve, bearing in mind the difficult relationships with the Party and the unions in the summer ahead. Even in its original form the resolution before the NEC had been
relatively mildly worded. Moreover, the amendment which had been proposed would have made it milder still in so far as it would have had the effect that the Executive would not have been committed to oppose "any" of the proposals but would have indicated that they could not endorse "all" of them and would have urged the First Secretary of State to give the matter further consideration. In its final form, it came so near to the purpose of the statement which the Government themselves had made when the White Paper was originally published that he could not agree that there had been any breach of collective responsibility on his part. But, if a contrary view was taken, he was very ready to discuss the matter further with the Prime Minister.

On the other hand it was recalled that the Cabinet had considered at an earlier stage a suggestion that the Government's proposals should be published as a Green Paper or in some other form which would indicate that the controversial proposals in particular were put forward as a basis for public discussion without commitment on the Government's part. But they had specifically rejected this suggestion and had decided that the proposals should be published as a White Paper, i.e. as a definite statement of Government policy which was not negotiable. Equally, the Cabinet had decided that there could be no concession on the three cardinal points in these proposals - namely, that an official strike should be preceded by a secret ballot; that an unofficial strike should be preceded by a pause for conciliation; and that this pause should, if necessary, be enforced by the sanction of attachment of earnings. And they had ruled that only if alternative suggestions which would be no less effective were produced could there be any question of modifying these proposals. Certain hypothetical modifications of this kind were in fact under consideration; but this did not affect the fact that those who took part in the meeting of the NEC on 26th March were well aware that the issue with which they were dealing was an issue of major policy, on which the Government's position had been made clear in the White Paper. The Home Secretary's intervention at the NEC could therefore be argued to have been, in effect, a vote against the Government's policy and an attempt to modify that policy from a position outside the Cabinet. As a result the resolution which had finally emerged had inevitably prejudged to some extent the outcome of the discussions with the interests concerned which the Government had undertaken to initiate; and the extent of the Government's embarrassment was illustrated by the fact that Trade Union branches in various parts of the country were now writing to certain Ministers deploring the fact that they were among those who had voted in favour of the White Paper. Moreover, the NEC had seen fit, during the public controversy which had followed their meeting, to refuse to circulate to the Press certain passages in a statement by a member of the Cabinet in which he had criticised the proceedings. The whole episode demonstrated the need for the Prime Minister to reassert his authority in the Cabinet and to require Ministers to accept the discipline necessarily inherent in the concept of collective responsibility.
THE PRIME MINISTER, summing up the discussion, said that, given the Cabinet's earlier decisions about the basis on which the White Paper should be published, it was clear that any Minister who had voted in favour of the resolution before the NEC at their meeting on 26th March had committed a breach of the principle of collective Ministerial responsibility. Nevertheless, he was more concerned with the future than with the past; and, provided that the basic principle was thenceforward observed strictly, he did not propose to take any further action in relation to the NEC meeting. It was open to any Minister to raise any matter within the Cabinet, which would have another opportunity to discuss the issues involved when the relevant legislation on industrial relations came forward for consideration. Meanwhile Ministers were committed, individually and collectively, to support the Cabinet's earlier decision as expressed in the White Paper "In Place of Strife" unless and until alternative, and no less acceptable, proposals were put forward.

As regards the more general issue the practice of canvassing outside support for personal views must thenceforward cease. It was possible that he had been too tolerant in this respect in the past; but he must now require the whole Cabinet to reaffirm the principle of collective Ministerial responsibility in the form in which he had stated it and in relation not only to White Papers but also to Green Papers while they were the subject of public discussion and to any other statements of Government policy. He would take steps to ensure that all members of the Government who were not members of the Cabinet were informed that they, too, would be expected to comply strictly with this principle thenceforward; and he would give further consideration to the implications of the action of Transport House in refusing to circulate, and thereby purporting to censor, a public statement by a Cabinet Minister.

He would use his own discretion in deciding the means by which the outcome of the Cabinet's discussion should be given appropriate publicity, as was clearly necessary in order to restore the morale of the Labour Party.

The Cabinet -

(1) Took note, with approval, of the Prime Minister's statement about the principle of collective Ministerial responsibility and of his intention to bring his statement to the notice of all members of the Administration as a code of conduct to be strictly observed.

(2) Assured the Prime Minister of their full support in any action which he might find it necessary to take in order to deal with any breach of this principle.

-4-
(3) Agreed that in the exceptional circumstances of the case it would be desirable that appropriate publicity should be given to the outcome of their discussion and took note that the Prime Minister himself, in his sole discretion, would make the necessary arrangements for this purpose.

(4) Agreed that it would be necessary after the Easter Recess to consider how best to improve communication between the Government on the one hand and the Parliamentary Labour Party, the National Executive Committee and the Labour Party in the country on the other hand.

(5) Reaffirmed their endorsement of the proposals in the White Paper "In Place of Strife" (Cmnd. 3888), subject to further consideration in the light of any alternative proposals which might be put forward before the Cabinet had to approve the relevant legislation.

Cabinet Office, S. W. 1.

21st April, 1969
THE PRIME MINISTER said that on the previous day the Chairman of the Parliamentary Labour Party (PLP), Mr. Houghton, had made a prepared statement warning the Government that they should not press their proposed Industrial Relations Bill in the face of the opposition of their own backbenchers to the point of risking the disintegration of the Labour Party. This statement raised an important issue which had constitutional implications comparable with those which had been involved when Mr. Harold Laski, then Chairman of the Labour Party, had presented a similar challenge to the Prime Minister of the 1945-51 Labour Government, Mr. Attlee. It implied either that the Government must accept that they could not carry on the government of the country and must face a Dissolution of Parliament or that, if they continued to govern, they must do so on sufferance and in the knowledge that there were certain policies which they must not pursue, however necessary in the country's interests they might consider them to be. If the Government accepted such a situation at the dictation of the PLP, they would be acquiescing in a dangerous precedent, which might be invoked against them on subsequent and equally critical occasions; and they would be demonstrating the truth of their opponents' claim that Labour government did not work and could not work in any foreseeable future circumstances. The Cabinet themselves must be clear where they stood on this issue.

THE HOME SECRETARY said that the issues of principle raised by the proposed Industrial Relations Bill had strained the loyalty of the PLP and of some Ministers to breaking point. The Cabinet were not in fact in unanimous agreement on the Bill; and it could not be expected to achieve more than a bare majority in the House of Commons, even if all members of the Government voted in its favour; and that was an issue which they would need to consider when the Bill was available for discussion. He himself did not believe that the benefits which it was claimed would
result from the Bill were worth the destruction of the Labour Party; and he would do all in his power to prevent a Dissolution on an issue which was of such little real significance. He therefore strongly urged the Cabinet to consider how they could withdraw from the brink of disaster; in particular, they should realise that they could not enact the Bill in its present form and they should therefore refrain from publishing it before the Conference of the Trades Union Congress (TUC) on 5th June. Otherwise, they would inevitably destroy any possibility that the TUC might bring forward alternative proposals which would afford a way out of the impasse.

In discussion it was argued that, although Mr. Houghton had been at fault in issuing his warning as Chairman of the PLP, particularly on the eve of the local government elections in England and Wales, he had not in fact raised a strictly constitutional issue, unlike Mr. Laski who had addressed the Government of the day from a position outside Parliament. No Government could govern without the support of their own Parliamentary Party; and it was the right of any member of that Party, not least its chairman, to warn them that they ran the risk of forfeiting that support and destroying the Party itself. The Cabinet had throughout underestimated the opposition to the Bill; and it was a mistake to suppose that support for their policy was now growing or that it could be secured by the threat of a Dissolution. On the contrary, many members of the PLP now foresaw only defeat for themselves and for the Party at the next General Election in any event; and the Government should therefore lose no time in reassessing their attitude to the Bill for the sake of the Party's morale.

On the other hand there was reason to believe that many members of the PLP were content that the Government were actively seeking agreement with the TUC; and it was in the Government's interests to encourage the Party to turn from arguments about principles to the discussion of the details of industrial policy, from which agreement might emerge. The wisest course, therefore, would be to avoid any appearance of rebuking Mr. Houghton who had claimed to have alternative proposals of his own, and to allow time for a calmer approach to the Industrial Relations Bill to develop. At the same time the Government must avoid encouraging the irrational belief in the PLP that a new, but unidentified, Leader could rescue them from a desperate situation. It must be made clear to them that in this respect they were pursuing a fantasy; there was no question of the Cabinet's accepting that the PLP could overthrow the present Prime Minister and expect a successor to emerge in his place. The Party must shed the illusion that they could at the same time govern and not govern. If they rejected one Government they must be able and willing to support another; but this they could not produce from within themselves.
THE PRIME MINISTER, summing up the discussion, said that it must be clearly understood that any Minister who did not vote in favour of the Bill in whatever form it was eventually introduced could not, of course, remain a member of the Government. But it was clearly important that the Government, with the help which Mr. Houghton had promised earlier in the week, should endeavour in their forthcoming discussions with the TUC about the Industrial Relations Bill to find means of reducing the controversy within the Party and making the proposed legislation generally acceptable. It must not be thought that the statement by the Chairman of the PLP had placed the Government in a dilemma; but, equally, the Party should be in no doubt that, if they sought to overthrow the Prime Minister and it became impossible to maintain effective government, a Dissolution of Parliament would be inevitable. He would arrange to give further consideration, in consultation with senior colleagues, to the best way of handling the political situation henceforward.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office, S.W.1.  
23rd May, 1969.
The Cabinet considered a memorandum by the Home Secretary (copies of which are available in the Cabinet Office) reviewing the situation in Northern Ireland and making proposals for the handling of the discussions between the Prime Minister and the Prime Minister of Northern Ireland later that afternoon.

The Home Secretary said that the situation in Northern Ireland had become more grave since the Cabinet last reviewed it on 30th July. There had been rioting in Belfast on the nights of the 2nd and 3rd August, barricades being built and petrol bombs thrown. The following week had been fairly quiet but he had suggested to the Prime Minister of Northern Ireland that to reduce the risk of further violence, he might consider banning the demonstration planned by the Civil Rights Association on the 11th August, the Parade of the (Protestant) Apprentice Boys on the 12th and the meeting of the (Catholic) Order of Hibernians on the 15th August. Major Chichester-Clark, however, had considered that it would be impossible to ban one of these occasions without banning them all; he had not expected that the March of the Apprentice Boys would itself lead to violence in view of the accommodation which had been reached locally between Catholics and Protestants and no trouble had been thought likely to result from the meeting of the Order of Hibernians. The Civil Rights Rally on the Monday (11th August) had been disorderly; on the Tuesday, there had been fighting in Londonderry, with the residents of Bogside determined to keep the Royal Ulster Constabulary (RUC) out of the area; and after a lull on Wednesday, there had been worse rioting on the Thursday, with tension mounting in Belfast. On the Thursday he had met the Prime Minister at the RAF Station, St. Mawgan, to discuss the situation, and later that day, with the Prime Minister’s authority, he had agreed to the request of the Northern Ireland Government for troops to be brought in to restore order in Londonderry. Similar action had later been taken in regard to Belfast. Thanks to the efficient pre-planning of the Ministry of Defence, the troops had moved in very fast and order.
had been rapidly restored in the limited areas where they could be deployed in force, although there had been some minor incidents elsewhere. Their arrival had been generally welcomed, in particular by the Catholics.

The question before the Government was what to do next. Opinions differed as to who was responsible for the troubles. There was a good deal of corroboration for the view that the Catholics had acted largely in self-defence, and there was little evidence to support the view of the Northern Ireland Government that the Irish Republican Army (IRA) were mainly responsible; but there was no doubt that the dominant feeling in Northern Ireland was fear. The initial impact made by the arrival of British troops could not be expected to last, and it was essential to act urgently to lower the temperature. He had himself posted a senior official and an Inspector of Constabulary with the General Officer Commanding (GOC) to advise him on the Government's political objectives and on English police practice; and he had sent the Deputy Commissioner of Police of the Metropolis and the Chief Constable of Hampshire to be liaison officers and consultants with the RUC and to assess the structural changes that might be needed in that force.

These were the aims which he suggested the Prime Minister should pursue in his discussions with Major Chichester-Clark. He thought that the latter was now a chastened man and that he would be willing to collaborate so far as he felt able. So long as he was willing to do so, it would be better to avoid direct intervention and
THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that the Government of the Irish Republic had been over-anxious to outflank the IRA and the extremists generally. Their Minister of Foreign Affairs, Dr. Hillery, had paid an uninvited visit to London, but had been told that we regarded Northern Ireland as a matter of internal jurisdiction. Dr. Hillery had now requested a meeting of the Security Council of the United Nations, and if normal practice were followed this request would be acceded to. He had also asked to address the Council. The Foreign and Commonwealth Secretary did not propose to object to his doing so, but he thought there was a good chance that the Irish would fail to muster the votes necessary for the item to be included on the agenda; that would be a satisfactory outcome. He was instructing our Ambassador in Dublin to remind the Government of the Irish Republic of their responsibility for curbing the activities of the IRA in Northern Ireland. The Prime Minister of Northern Ireland should also be reminded that foreign relations were the responsibility of the United Kingdom Government; a break with the Irish Republic would be most damaging in the short run more damaging to us than to the Republic. But in his view the issues were mainly domestic, and their international significance, though important, should not be exaggerated. He agreed with the immediate steps proposed by the Home Secretary and on the need for immediate results (particularly in regard to the 'B' Specials) to be seen to flow from that evening’s meeting. For the future he would prefer to work through the Northern Ireland Government and thought that the proposal to influence them through senior civil servants stationed in Belfast was workable. But if they would not co-operate the Government would have no alternative but to assume direct control.

In discussion there was general agreement that the immediate need was to contain the situation and that for this purpose the steps proposed by the Home Secretary were the right ones; there would be no advantage in recalling Parliament. The first priority was to persuade the Prime Minister of Northern Ireland to accept the withdrawal of the Specials from the streets and their effective disarming. Subject to this, it would be desirable to leave the Ministers conducting the discussions with the Northern Ireland Government the widest possible discretion to play the hand as they thought best. The replacement of the Inspector-General of the RUC was also highly desirable, because withdrawal of the troops depended on the reconstitution of that force, but most members of the Cabinet thought that the talks should not be allowed to break down on this point. There was also agreement on the urgent need for results to be seen to flow from that evening’s talks. They should aim at the publication of a communique laying down basic principles and setting out the immediate decisions. This should make clear that the border was not in issue and that the problem lay wholly

-4-
to use the Northern Ireland Government as agents; he would propose to place senior civil servants in the Prime Minister's Office and the Ministry of Home Affairs as a means of bringing influence to bear. It was important to remember that the majority of the population of Northern Ireland were Protestant; in seeking to allay the apprehensions of the Catholics, they must not drive that majority beyond endurance. He thought that in the circumstances Major Chichester-Clark would feel able to accept the withdrawal of the Specials and arrangements for their arms to be kept in armories. Reactions to the proposals for an enquiry and for a change in the Inspector-General were difficult to forecast; there might be resignations at the top, but he thought that some middle-rank officers would welcome a change in the ethos of the force.

**THE SECRETARY OF STATE FOR DEFENCE** said that the deployment of troops had gone smoothly, and they had been welcomed by both sides; but there were already signs that the honeymoon period was ending. There would shortly be two brigades in Northern Ireland. Further units could be made available if needed, without affecting our North Atlantic Treaty Organisation (NATO) commitment, and this force should be adequate for its present role; but it would be quite inadequate to cope with a major emergency, such as would arise if the Protestant majority were stung into armed opposition. In that event, it would be necessary to draw on forces assigned to NATO. He was in agreement with the Home Secretary on the need to act urgently to make the situation less explosive; but at the same time, he wished to stress the importance of not pushing too hard and so alienating Protestant opinion. It was important to remove the Specials from Catholic and mixed areas - if possible this should be announced tonight - and to withdraw their weapons into armories where they could be kept under control, and would not constitute a temptation to the IRA and other subversives. The GOC would then be able to consider what further troops he needed to maintain law and order; he was aiming at a light coverage of the whole country by mobile troops. The arrangement whereby the troops had been introduced at the request of the Northern Ireland Government and the continuing close contacts between the GOC, the Northern Ireland Government and the Home Secretary's representatives ensured civil control over the disposition of the troops.

He agreed that they should aim to retain the Northern Ireland Government as an effective force, for in that way they stood more chance of being able to withdraw the troops. Finally he wished to support the proposal made by the Northern Ireland Government with the approval of the GOC, for the blocking of some minor roads crossing the border by cratering or other means; this would make it more difficult for the IRA to smuggle arms in and generally exploit the situation.
within the jurisdiction of the United Kingdom Government, should explain the basis on which troops had been committed, and should refer to the programme of reforms already promised. The communique should be accompanied by a declaration of the right to equality of treatment of all citizens irrespective of political views and religion.

The time had not yet come to take decisions about the long-term future relationship between the two Governments; but the Government of Northern Ireland would have to recognise that the fact that they were unable to maintain law and order without the use of troops created a new political situation. The Prime Minister of Northern Ireland had spoken of forming a more broadly-based administration, and he should be asked what he meant by this. There might be virtue in appointing a Minister of Community Relations, advised by a Commission representing both communities, to eliminate discrimination. Part of the frustration felt by the Catholic community arose from the fact that they had at present no hope of taking part in the Government; and the Commission on the Constitution might be asked to consider means of remedying this situation. These and other ideas should be studied with a view to legislation being introduced to amend the Government of Ireland Act.

All present were agreed that it would be preferable to work through the Government of Northern Ireland rather than take direct control, so long as that Government was prepared to co-operate and effective means of bringing influence to bear upon it could be found. Direct rule would pose a severe administrative problem and would increase the risk of armed conflict with the Protestant community. The Government should pursue a middle of the road policy and aim to prevent the future of Northern Ireland becoming a matter of acute political controversy.

If on the other hand the talks that evening produced no acceptable agreement more drastic measures would be inevitable. In that case, the Cabinet should resume their discussion as soon as possible.

In further discussion doubts were expressed about the wisdom of blocking minor roads crossing the frontier. It was suggested that such action would be over-dramatic and unlikely to be effective, the more so since the IRA were not the main cause of the trouble. On the other hand it was pointed out that similar action had been taken in 1956 and that it would add to the difficulties of the IRA in exploiting the situation; the request of the Northern Ireland Government was supported by the GOC. Agreement on this point might be a useful concession in the talks; no public announcement would be needed.
THE PRIME MINISTER, summing up the discussion, said that he had thought it right that the Cabinet should have the opportunity to consider the situation despite the authority which had been delegated to him. They were agreed that the first need was to contain the position and that for this purpose the steps proposed by the Home Secretary were appropriate. They were also agreed that the withdrawal and effective disarming of the Specials were essential and he would make it his prime purpose in his talk with the Prime Minister of Northern Ireland to secure his agreement to this. For the rest the Cabinet were content that he should reach the best settlement that he could on the lines which they had discussed; agreement to the blocking of roads might be an element in such a settlement, but he would not take the initiative in proposing it. He proposed to start the talks that evening with a general discussion, and then work towards an agreed communique which would declare that the border was not an issue and that the disturbances were entirely an internal affair within the jurisdiction of the United Kingdom Government; explain the basis on which troops had been brought in; and refer to the programme of reforms to which the Northern Ireland Government were committed; this should be accompanied by a declaration setting out the principles which would guide the policies and the mutual relationship of the two Governments. The Prime Minister of Northern Ireland would be supported by a number of Ministers at the talks, and he therefore proposed that the Foreign and Commonwealth and Defence Secretaries should be present in addition to the Home Secretary. Assuming that the talks were successful, it would probably be appropriate to have a second round of talks in about a fortnight's time at which longer term arrangements could be discussed. If however the talks came to no satisfactory conclusion, it would be necessary for the Cabinet to resume their discussion as soon as possible and he asked those present to hold themselves available. He would consider further in consultation with the Ministers most concerned how security intelligence might be improved. Finally he wished to emphasise the importance of ensuring that no hint of their discussions reached the Press which could be exploited by the Opposition or others to suggest that there was any disagreement in the Cabinet; the lives of our troops were at stake.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office, S. W. 1.

20th August, 1969
THE PRIME MINISTER said that the meeting which had taken place on 19th August with the Northern Ireland Prime Minister, Major Chichester-Clark, had gone well. The discussions had been protracted largely by the need to discuss among ourselves the proposal made at the meeting by the Northern Ireland Prime Minister with - as was subsequently confirmed - the agreement of the General Officer Commanding, Northern Ireland, that the latter should assume overall responsibility for security operations. There had also been a good deal of discussion with the Northern Ireland representatives over the terms of the Declaration of Principles and Communiqué. However, the final result had been satisfactory. There had been no need, as at one time had appeared possible, to recall the Cabinet; and the objectives agreed by the latter at their meeting earlier in the day had in substance been achieved. Subsequently, the Home Secretary had visited Northern Ireland from 27th to 29th August; he invited the Home Secretary to report on the outcome of this visit.

THE HOME SECRETARY said that he had been accompanied on his visit by the Minister of State at the Home Office, Lord Stonham, and also by his Parliamentary Private Secretary, Mr. Roland Moyle, MP, both of whom had rendered invaluable services behind the scenes. He had found the Northern Ireland Government bewildered and inert. It had been difficult to arouse them to a realisation of the full gravity of the situation, possibly because for obvious reasons they had been able to see for themselves the situation in the areas where tension was at its highest. But though there was inertia, there was no ill-will and they had appeared ready enough to co-operate once they had been given a lead. He had addressed the backbenchers of the Ulster Unionist Party and had sensed a surprising amount of agreement with what he had said to them. They were however clearly apprehensive about the extent to which they could carry their supporters with them. He had also had contacts with religious leaders. Both Protestants and Catholics had emphasised that the problems of Northern Ireland were political and economic rather than religious.
but both had also expressed misgivings about the extent to which
the other Protestant churches were losing supporters to Mr. Paisley.

The Northern Irish were a tough people: the maintenance of law and
order in Ulster was a difficult task at the best of times; and

Mr. There was indeed some danger of a Protestant right wing backlash
in which the Ulster Unionist Party would lose support not to the
left but to the right. So far as security was concerned, he had
spoken to the Commandants of the 'B' Specials, all of whom were
retired Service officers. He had appealed - he thought not without
success - to their loyalty to the Crown and the constitutional
Government. Although this would be subjected to a severe
strain if there were a radical change in the role of the 'B' Specials,
the position would be eased if the change came as a result of the
independent investigation at present being conducted by Lord Hunt.

The Commandants would obey orders, but there remained some
doubts about the extent to which their men would follow them.

The handing in of the 'B' Specials' arms was an extremely
delicate operation, but it had been proceeding reasonably
well. There were however reports that some of these arms
had been finding their way to the Protestant volunteers controlled
by Mr. Paisley and others; and the situation would have to be
carefully watched. Meanwhile, the 'B' Specials had been withdrawn
from crowd control duties and restricted to the guarding of
vulnerable points and police stations. The Royal Ulster
Constabulary (RUC) remained unacceptable to large sections
of public opinion, both for reasons of history and because feeling
against them was being exploited for ulterior political motives;
and some areas in the large cities were still either self-policing
or without any effective enforcement of law and order. It would
be difficult to restore public confidence in the RUC and the Force's
confidence in itself: and major changes of policy, organisation and
personnel were likely to be called for in the light of Lord Hunt's
report. The public lack of confidence in the police forces threw
a heavy burden on the Army, whose commitment to the maintenance
of law and order was likely to have to continue for some considerable
time. Although the troops had done very well, they were not
trained in police duties: they could not be expected to carry them
out indefinitely: but for the present there was no alternative.

After outlining the measures taken following the Northern
Ireland Prime Minister's visit to London and his own visit to Ulster
the Home Secretary pointed out that while civil rights and non-
discrimination were of cardinal importance, the problem of
Northern Ireland was also to a very large extent an economic
one. From this point of view, the biggest problem of all was
Londonderry - a city divided against itself and without hope.
The pattern was that unemployment led to political extremism,
and extremism to disorders, which were then reflected in Belfast.
If even 1,500 jobs could be created in Londonderry, this would go a long way towards transforming the situation: and he appealed to his colleagues for their co-operation. The Irish problem, after nearly 50 years of relative stagnation, was on the move again and unrest was likely to continue as long as the long-term problem persisted, whatever we did in the short term to ease immediate pressures. The situation was a grave and urgent one. Time was not on our side. More barricades had been set up by both sides in Belfast the previous night. While this was more of a gesture than anything else, it was indicative of the atmosphere that still prevailed. But disturbing though the outlook was, it was more promising than it had been a generation ago. In contrast to the position in 1914, the British Army was not now emotionally involved. The Opposition at Westminster, whom he had been at great pains to keep informed - were no longer totally committed to the Protestant North; and despite some unhelpful public utterances by the Prime Minister of the Irish Republic, Mr. Lynch, and others, he judged that the temper in the Irish Republic was very different. As to this last point, he believed that our long-term objective should be to move forward towards a better relationship between Northern Ireland and the Republic. This would need very careful consideration and it might be that no major progress would be achieved within the lifetime of the present Parliament. However, as a first step it might be useful for the Prime Minister to see Mr. Lynch. The timing of this would need further thought: but talks might take place after he himself had paid a second visit to Northern Ireland, which it was his present intention to do about 8th-9th October; after the reports of the various commissions and other investigating bodies which had been set up had been received; and after further discussions in London with the Northern Ireland Prime Minister.

In discussion general appreciation was expressed of the way in which both the political and military aspects of the situation had been handled. The conduct of the troops had been exemplary: but they were not equipped or trained to do a long-term policing job. Although their presence and their obvious impartiality had been a valuable psychological deterrent, this was to some extent a wasting asset; and there was some doubt whether if there were further major outbreaks of violence, the troops would have the necessary experience or techniques to contain them. This made it all the more urgent to press on with the reorganisation of the regular police forces and the restoration of public confidence in them. The point was made that one illegal broadcasting station was attempting to create friction in Belfast and Londonderry between the troops and the local population: and it might be necessary to take action against the anarchist groups who were behind it. The Irish Republican Army was also trying to maintain tension and foment violence.
but it had not been very effective; its importance had been greatly over-estimated by the Northern Ireland authority; and there had been little real co-operation between it and the extreme left, even in the areas, such as the Bogside in Londonderry, where the writ of the Northern Ireland Government still did not run. There was general agreement on the urgent necessity of creating more opportunities for employment, especially in Londonderry and, in general, in the areas west of the River Bann, where both unemployment and the proportion of Roman Catholics were highest. The financial implications would have to be considered further when specific proposals had been worked out. The point was made that intelligence about the internal security situation had been deficient in the early stages. At that point, we had had to rely on the RUC whose information was both one-sided and inadequate and it had not been considered advisable to establish an independent intelligence organisation. Steps had however now been taken to improve both the RUC's and our own sources of information. In general, Press and public reactions to the measures which had been taken had been favourable; and the Opposition had not sought to exploit the Government's difficulties. Reactions abroad had also been favourable, and the visit of Miss Bernadette Devlin, MP, to the United States had on the whole been a failure.

THE PRIME MINISTER, summing up the discussion, said that the meeting of 19th August with the Northern Ireland Prime Minister and the Home Secretary's subsequent visit to Northern Ireland had achieved the substance of the objectives laid down by the Cabinet. Measures had been set in train to deal with the most urgent problems. The action taken had been well received by public opinion, and would reflect credit on the Government. We had bought time in which to work out a long-term solution. This might be a long time in coming, and it was unlikely to be achieved within the lifetime of the present Parliament. Meanwhile we should avoid being rushed; and in particular there should be no premature withdrawal of the troops.

The Cabinet -

Took note of the Prime Minister's summing up and of the points made in discussion.

Cabinet Office, S.W.1.

5th September, 1969

-4-
THE HOME SECRETARY said that although he was less pessimistic about the outlook than he had been 24 hours earlier, the situation in Northern Ireland was still extremely tense. The tension was unlikely to be diminished by the publication of the Cameron Report on the origins of the disturbances of last January, which would take place on the following day. Arrangements had been made for the Roman Catholic Archbishop of Armagh, Cardinal Conway, to receive a copy of the report in advance of publication, and to have the main features of it explained to him. This would go some way towards dissipating the impression the Cardinal had formed that we were not taking him fully into our confidence. Most of the problems raised in the report were being covered by the various working parties and commissions which had been set up following the London meeting with the Northern Ireland Prime Minister, Major Chichester-Clark, and his own visit to Northern Ireland. In presenting the report to public opinion, emphasis would be laid on the fact that the disorders had taken place nine months ago, and that since then, action had been initiated on a number of the grievances which had caused them; but the task of presentation remained a difficult one. Much of the recent increase in tension was due to the activities of the illegal broadcasting stations which had been set up by both sides: for instance the crowd of 30,000 which had been responsible for the disorders in Belfast on 7th September had been called together by incitements from "Radio Orange". It had not been thought advisable to attempt to close the illegal stations down; but it had now been decided that despite the various legal and ethical objections to such a course, they must be jammed, and this was now being done, though the jamming was not yet fully effective. One difficulty was that the frequencies employed by the illegal stations were very close to that used by a station in the Irish Republic, and there was a risk of protests from the Government of the Republic if there were interference
with it. There was also some ground to suppose that some of the illegal Protestant stations had the support of influential Ulster Unionists. The situation would be carefully watched, and the broadcasts monitored. There was increasing concern in Northern Ireland at a situation in which political tension was leading to a progressive breakdown in the enforcement of law and order; and it was likely that the Northern Ireland Prime Minister's statement of 9th September on the removal of the barricades - of which the Home Secretary had had only an hour's warning - had been prompted by pressure from the business community rather than from the Ulster Unionist 'hard-liners'. When he had seen the Northern Ireland Minister for Commerce, Mr. Bradford, the Home Secretary had emphasised the need for closer consultation on pronouncements like this which caused serious implications for the troops in Northern Ireland; but the Northern Ireland Government had been under considerable political pressure to show that they were still in control of affairs and he did not want to add to their difficulties. Over the past few days he had had a number of contacts with the

The Home Secretary would that afternoon be receiving a deputation consisting of Mr. Fitt and other influential Roman Catholics, including Father Padraic Murphy, a parish priest from the Falls Road area of Belfast. He hoped that the deputation would come out publicly with a statement urging the removal of the barricades, if necessary over a period and if necessary under the protection of the Army. This would do a great deal to improve the atmosphere. So far as the Northern Ireland Government was concerned, the Northern Ireland Prime Minister's statement of 9th September had been a gamble; but it was satisfactory that he (and now the Minister of Commerce) had staked his political future firmly on the continuance of reform. Major Chichester-Clark was still hesitating about the appointment, foreshadowed in the communique issued on 29th August, of a Minister for Community Relations, but we were keeping up the pressure on this. It was difficult to give a firm forecast of progress. But most of the working parties would have completed their reports by the end of September. Lord Hunt's enquiry into the police forces would probably be completed about 6th October, though he proposed that its results should not be published until he himself visited Northern Ireland a few days later, when he would be in a position to say something about the views and intentions of the British Government. The necessary legislation by the Northern Ireland Parliament might be passed by the end of the year.
There would clearly have to be a debate on Northern Ireland at Westminster when Parliament reassembled. The most suitable time for this might be after the publication of the various reports and after his own visit to Ulster. He had been considering whether, as a long-term measure, it would be possible to relieve the Army of the burden of police duties, for which they were not equipped or trained, by bringing in substantial police contingents from Great Britain. This would require legislation in the United Kingdom Parliament, and one possibility might be for the Northern Ireland debate to be held on this. Although it was impossible to forecast the future course of events with any accuracy, it was clear that the whole Irish problem was once more on the move, and that there would be pressure for fundamental changes going far beyond what was at present contemplated. In these circumstances, it was important to get a dialogue going with the Government of the Irish Republic after the reports had been published, he himself had paid a second visit to Northern Ireland and a debate had been held at Westminster. The attitude of the Prime Minister of the Irish Republic, Mr. Lynch, had not been helpful or easy to assess. Though he had specifically renounced the use of force, he had sent troops to the border: and he had embarked on a world-wide propaganda campaign against the United Kingdom and Northern Ireland Governments. If he really wanted a united Ireland, he must conciliate Protestant opinion; but so far his tactics had done nothing but alarm it. Nevertheless, if there were to be any prospect of a final solution, relations between the North and South of Ireland, and between the South and the United Kingdom must be lifted to a different plane. As things stood at present this was likely to take a long time.

In conclusion, the Home Secretary paid tribute to the manner in which the Army had discharged an arduous and ungrateful task. He expressed his gratitude for the support he had received from his colleagues, and in particular for the help they had given him in the provision of staff for the various working parties and commissions. He would have to ask for the present provisional arrangements to be continued for some time to come, and he hoped that his colleagues would bear with him in this; but it would probably be possible to regularise the position after the end of October.

THE DEFENCE SECRETARY said that with eight battalions in Northern Ireland and two in reserve, we had reached the limit of availability of troops uncommitted to the North Atlantic Treaty Organisation. Further reinforcements could of course be made available if need be under the procedures agreed with the Supreme Allied Commander, Europe; and he fully appreciated the necessity especially from the point of view of maintaining the confidence of the Roman Catholics, of providing whatever forces were required. He must however give warning that the forces at our disposal were not
inexhaustible. The calling-in of the arms of the 'B' Specials had gone reasonably well in Belfast and Londonderry, but less well in the country. The present arrangements might have to be changed; and this might lead to an increase in tension.

In discussion general agreement was expressed with the Home Secretary's analysis of the situation. The Cabinet agreed that it might lead to a considerable slackening in tension if the Roman Catholic deputation to be received by the Home Secretary that day could be induced to make a statement on the lines he had proposed. While the Army's image as an impartial authority had been a major asset in the early stages, Protestant confidence in the Army's objectivity had been shaken by recent events and by misrepresentations in illegal broadcasts, and there was now a danger of some degree of polarisation, with the Protestants placing their reliance on the Royal Ulster Constabulary (RUC) and the Roman Catholics putting their trust in the Army. This might lead to distrust and tension between the police and the Army; and the tone of the recent RUC statement on the use by the Army of CS gas in Belfast on 7th September suggested that this might already be happening. It would be useful if the General Officer Commanding, Northern Ireland, could come to London and give his appreciation of the military situation to the Ministers most closely concerned. There was general approval of the Home Secretary's suggestion that

Though the tension in Northern Ireland was not necessarily entirely religious in origin, the Churches were clearly a key factor; and the Cabinet welcomed the efforts which had been made to take them into our confidence. Reporting by the Press and other information media had not always been strictly objective, and a watch should be kept on this; in particular, an eye should be kept on commercial television in Ulster, which was under Ulster Unionist control. Although the Northern Ireland Prime Minister and several of his colleagues had committed themselves firmly to the cause of reform, the Government was in danger from both left and right, and the possibility could not be excluded of its losing control of the situation. In that event the United Kingdom Government might have to assume direct responsibility. If this contingency arose, it would be better both presentationally and politically if the United Kingdom Government were to take over at the request of the Northern Ireland Government rather than on its own initiative. A crisis might arise at very short notice, and the arrangements for the introduction of direct rule should be reviewed and if necessary brought up to date.

THE PRIME MINISTER, summing up the discussion, said that the Home Secretary had made it abundantly clear that the situation in Northern Ireland was still extremely grave. He invited the Home Secretary to give a further full report to his
colleagues at their next meeting; and he warned the Cabinet that they might have to be recalled earlier than was at present contemplated if there were any marked deterioration in the situation. The arrangements for transition to direct rule should be re-examined by officials with a view to a discussion in the Ministerial Group on Northern Ireland. Officials should give further consideration to the long-term possibilities to which the Home Secretary had referred and in particular to that of placing relations with the Irish Republic on a better and more constructive footing. They should also examine our diplomatic posture and the international implications of the Northern Ireland situation in terms not only of the Irish proposal, to which the Foreign and Commonwealth Secretary had referred earlier, for the inscription of the Northern Ireland situation on the agenda of the forthcoming meeting of the General Assembly of the United Nations, but in terms of our bilateral relations with Commonwealth and foreign countries.

In view of the gravity of the Northern Ireland situation and the potentially serious consequences, both internal and international, of any indiscretions, members of the Government would have to exercise particular care to avoid making any public pronouncement which might be exploited to the Government's detriment or to increase tension. He would circulate a warning to Ministers not in the Cabinet and to junior Ministers on this point.

The Cabinet -

(1) Took note of the statements by the Home Secretary and Defence Secretary, and of the points made in discussion.

(2) Took note with approval of the Prime Minister's summing up of their discussion.

Cabinet Office, S.W.1.

12th September, 1969
THE PRIME MINISTER said that on the previous evening he, the Home Secretary and the Defence Secretary had met with the General Officer Commanding (GOC), Northern Ireland, General Sir Ian Freeland, and Mr. Oliver Wright, the United Kingdom Government's special representative in Northern Ireland. General Freeland and Mr. Wright had given the meeting their appreciation of the situation, which showed that the position was still a very serious one. This had been followed by a discussion of the situation arising from the issue by the extremist committee which was in de facto control of the Catholic enclaves in Belfast and Londonderry of a statement in connection with the removal of the barricades which linked this to far-reaching political demands and affirmed that the extremists were prepared to negotiate only with the Army and not with the Government of Northern Ireland. During the meeting the Government of Northern Ireland had informed us of their intention to issue immediately a statement which would set a time limit for the removal of the barricades by agreement, failing which they would be removed by force. The Northern Ireland Prime Minister, Major Chichester-Clark, was clearly under pressure from his right wing. If he failed to make a firm statement on the removal of the barricades, or was inhibited from doing so by us, there was a danger that a large section of his supporters would be alienated and join the "Protestant backlash" which had recently become evident, and that there might be resignations from his Government which would threaten its survival. At one point it had seemed possible that the Prime Minister himself or the Government collectively might resign. In that event, it was unlikely that any alternative Government could be formed with which we could co-operate. It might not be possible to form a government at all, in which case we should have no choice but to assume direct responsibility for the government of Northern Ireland. It might be necessary in the last resort to use force. On the other hand, a threat, explicit or implicit, to use it committed the United Kingdom Government, which would have to provide the force. The use of force would have the gravest implications, and the GOC, Northern Ireland, had expressed
strong misgivings about the consequences of our becoming involved, as we well might be, in an urban guerilla war. It seemed advisable to bring pressure to bear on the Northern Ireland Government to omit from their statement any reference to a time limit or to the use of force, and to hold the situation so far as they were concerned by saying - and allowing them, if they wished, to say - that General Freeland had been authorised to discuss with the Government of Northern Ireland the nature of the action involved in dismantling the barricades and the manner in which this would be done. In such discussions the GOC was not to commit himself to any precise timetable. If there were any question of the use of force he was to refer back for instructions, which would have to be considered collectively by Ministers. In the event the Northern Ireland Government had agreed to issue a statement on lines acceptable to us. This had been followed by a television interview given by the Home Secretary in which Mr. Callaghan had emphasised that there could be no question of entering into a political negotiation in the context of the removal of the barricades. This was a security problem which the GOC was empowered to discuss; but he was not empowered to discuss with self-appointed bodies political issues which were properly the concern of the Government of Northern Ireland, which had already put forward through the appropriate constitutional channels its proposals for dealing with the majority of the problems involved. Meanwhile, negotiations on the spot for the removal of the barricades continued.

THE DEFENCE SECRETARY said that Londonderry was relatively calm, but that the situation in Belfast remained very tense. The troops were subjected to constant vilification by extremist Protestant elements: but by the standards which applied to active service the strain on them was not excessive, and the GOC was not worried about morale. With the arrival that day of a further battalion in Belfast (making six battalions in all in that area) the GOC felt that he would be able to contain the situation, provided that there was no major deterioration. He intended to pay a short visit to Northern Ireland himself on 18th September.

THE MINISTER OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that the Irish proposal for the inscription on the agenda of the General Assembly of the United Nations would be considered by the General Committee of the United Nations on 17th September. We had been lobbying with some success, and the prospects for an adverse vote were quite favourable, but promises of support obtained in capitals did not always result in votes in the desired sense by delegates. Even if the Irish proposal were rejected by the General Committee the matter could be raised afresh in the General Assembly itself. If this happened
and if the proposal for inscription succeeded, the United Kingdom Permanent Representative to the United Nations, Lord Caradon, had been instructed to press for the matter to be referred to the Human Rights Commission where it could be argued that it would be out of order to discuss the political aspects of the question.

In discussion there was general approval of the action taken by Ministers arising out of the meeting on 15th September. The point was made that we should not recoil from political demands as such. What was at issue was the manner in which these were made. They could not be channelled through the GOC who was concerned solely with security, but should be dealt with through the Northern Ireland Government which in many instances had already initiated action on the alleged points of grievance. It would be necessary to keep up the pressure in Stormont. Full use should be made of the good offices of moderates on both sides and in particular of responsible churchmen. In this connection it was noted that the Catholic hierarchy were already in touch with the leader of the committee running the Catholic barricaded areas in Belfast and Londonderry, a Mr. Sullivan, with a view to inducing him to adopt a more reasonable attitude. Consideration was given to the position which might arise if the present Northern Ireland Prime Minister were forced into resignation. If the present Minister of Development, Mr. Faulkner, were able to form a government, he would probably continue in the main with present policies and we should be able to co-operate with him. A government headed by the former Minister of Home Affairs, Mr. Craig, would however present an entirely different situation, and we could not allow ourselves to be forced into the position of supporting an administration of extreme and uncompromising right-wingers. It had to be borne in mind that it might prove impossible to form a viable Northern Ireland government at all, Emergency legislation to deal with this contingency had been prepared, and had recently been reviewed, as had the general constitutional position. It was true that there had been some weakening in confidence in the Army as an impartial force as between Protestants and Catholics, in particular among the former. The use by the Army on a very small scale of CS gas against a Protestant crowd had produced a much more violent reaction than the expenditure of CS gas on a much larger scale by the Royal Ulster Constabulary against Catholics at an earlier stage. But accusations, however unsubstantiated, that the Army had a pro-Catholic bias were probably inevitable in a situation where the Catholics were on the whole on the defensive: where Army intervention had in the main been with a view to their protection; and where reforms, mostly pro-Catholic in effect, which had been delayed for 50 years had to be rushed through in a few months.
The Cabinet -

Took note of the statements by the Prime Minister, the Defence Secretary and the Minister of State for Foreign and Commonwealth Affairs and of the points made in discussion.

Cabinet Office, S.W.1.

16th September, 1969
The Cabinet considered statements by the Home Secretary and the Defence Secretary about the report to the Northern Ireland Government of Lord Hunt's Advisory Board on the future of the Royal Ulster Constabulary (RUC) and the Ulster Special Constabulary (USC); and a memorandum by the Home Secretary (C(69) 131) dealing with the proposals of the three working parties and the economic mission which he had initiated on his visit to Northern Ireland in August.

The Home Secretary said that the Government could applaud the principal recommendations of Lord Hunt's report. These were that the RUC should be stripped of its para-military functions and concentrate on normal policing; a police authority, on the Great Britain pattern, should be interposed between the force and the Northern Ireland Government; HM Inspectors of Constabulary should inspect the force at regular intervals; arms should not normally be carried; the uniform should be redesigned and be blue instead of black; the establishment should be much enlarged; means should be found of recruiting more Roman Catholics; there should be interchange with police forces in Great Britain; and links should be formed with police institutions in Great Britain.

The Home Secretary said that he had a Chief Constable of a force in Great Britain ready to take charge; and the aim should be to have this officer in post simultaneously with the publication of the report and the announcement of the decisions on it. He was seeking a suitable Roman Catholic for appointment to the post of Deputy Inspector-General, but it was proving difficult to find a volunteer.
Legislation would be necessary either in the overspill period or early next Session to implement the arrangements for the transfer and secondment of Great Britain police. He hoped that he could persuade the Northern Ireland Government to acquiesce in all these proposals for the RUC.

The proposals relating to the USC (the 'B' Specials), were more difficult; and he and the Defence Secretary shared reservations about them. The Hunt Report proposed that the USC should be disbanded and that their former functions should be undertaken by two new bodies: a special constabulary, on the Great Britain pattern, of unpaid, unarmed volunteers under police control, which would relieve the RUC of routine duties such as traffic control; and a part-time, locally recruited, paid and armed defence force, rather like the wartime Local Defence Volunteers, to guard the border and key installations, who would receive military training from the British Army and would be under the control of the General Officer Commanding (GOC), acting in consultation with the Northern Ireland Government. Lord Hunt's Advisory Board thought that the political repercussions of disbanning the USC would be less severe if it was replaced by such a force; some of the more suitable of its ex-members might be absorbed into the new force and the creation of the force would reduce the risk of the USC going underground. Even so, there was some risk of an adverse Protestant reaction, although it was perhaps not as grave as Mr. Quintin Hogg had suggested to him it might be.

The most difficult problem in this part of the proposals was how and to what extent the Northern Ireland Government should share in the control of the new defence force. They had made it clear that they wanted to play a larger part than Lord Hunt had envisaged, whereby the GOC would exercise his command in close consultation with them through the medium of a Security Committee under the chairmanship of the Minister of Home Affairs. He recognised the special difficulty for the Northern Ireland Government in accepting this element in the proposals; and it would clearly be much easier to persuade Protestant opinion to accept the disbandment of the USC if the package included a good measure of control of the new force by Stormont; but it would not be possible to go beyond an arrangement for the GOC to consult with the Northern Ireland Government on any matters of the force's size and deployment, where their local knowledge would obviously be helpful. The matter was so delicate that Lord Hunt and his colleagues had not been able to reach a fully worked out solution and it would therefore fall to him, keeping in touch with the Defence Secretary, to do this during his forthcoming talks with the Stormont Government. The disbandment of the USC and the establishment of the new local defence force under the control of the GOC and the
Ministry of Defence were integral parts of the package of reforms, which were the minimum that we should require. He believed that he would be able to persuade the Northern Ireland Government of this but he would need the Cabinet’s authority for a measure of discretion in his talks.

THE DEFENCE SECRETARY said that he found the Hunt Report’s recommendations for the RUC itself admirable. He agreed that the USC should be abolished in its present form and he accepted that there was a case for a military force to undertake the tasks which they had performed in the border areas. It would not be possible for the regular forces to shoulder this burden themselves, and, even if they had the manpower, there were other objections to their becoming involved in it. He accepted, therefore, that there would have to be a separate new military force.

To be adequate, the new force would need a strength nearer 5,000 than the 4,000 proposed by the Hunt Report; and it would need about 250 British officers and NCOs in its command structure. Their task would be similar to that which the Army and the USC had had to perform in blocking the frontier during the Irish Republican Army (IRA) insurgencies of the 1950s. The nature of this task would require the force to be raised in mainly rural areas and to be provided with arms which they would keep at home. He saw no serious objection to this. The force should not be part of the existing Reserve Army but rather should be analogous to the Home Guard, with a flavour more of the original Local Defence Volunteers. The Home Guard legislation, which was still on the Statute Book, would provide a convenient model for a separate comprehensive Bill - to be passed by the United Kingdom Parliament - to cover the new force, which would be preferable to attempting to make provision for it by amendments to Reserve Army legislation. He would wish to be sure that adequate arrangements would be made to offset the extra £1 million cost of the force to the Defence budget. Like the Home Secretary, he recognised that these proposals raised a political dilemma. To make the new force acceptable to Roman Catholic opinion, it would have to be clearly under the control of the Westminster Government and firmly linked to the Army. On the other hand, to avoid a serious Protestant reaction, the Stormont Government would somehow have to be involved in its management. He was content to leave it to the Home Secretary to obtain the best terms of agreement he could with the Northern Ireland Government, so long as ultimate control of the force lay with the GOC responsible to the Ministry of Defence.

In discussion it was argued that no hasty decision should be made on the proposed new defence force. Several major questions needed to be answered. How could it be ensured that the force would contain a reasonable balance of Protestants and Roman Catholics? If the force were dominated by Protestants - as seemed
likely, and, indeed, perhaps necessary if it were to defend the border with resolution - how would the Irish Republic react to it, and how could Roman Catholic opinion in the North be persuaded of its advantages over the USC? It was not sufficient to compare it favourably with the USC, because the USC was a relic of the past which was widely recognised as offensive and which the Government now had to remove. We should be most circumspect about creating, at this stage of Northern Ireland's history, a new special military force, even though it admittedly would be better than what it replaced.

On the other hand, it was pointed out that the Government had only a choice of evils before them. There were undoubtedly serious objections to the proposed new defence force; but it would be a substantial improvement on the USC. It would be only half as large; it would be located away from the urban areas of tension; and it would be directly under Army command and not indirectly and ineffectively controlled through the RUC. The issue of the minimum necessary arms to them had to be viewed against the background of the hundreds of thousands of small arms privately held in Ulster, many of them by the USC themselves. But the decisive consideration was that there was no satisfactory alternative. The Army would need five further battalions to undertake the duties envisaged for the defence force. These would be additional to the extra garrison that would be required in the long term for the Army to fulfil its role of assisting the civil power and backing the defence of the frontier. The Army's other commitments would not allow it to provide a force totalling the 11 battalions which would be needed. In the long run it was to be hoped that the defence force would wither away when it had served its purpose.

In further discussion there was general agreement that the Northern Ireland Government should not have as large a say in the control of the force as Lord Hunt proposed, lest it should in effect become simply a reincarnation of the USC.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet welcomed the proposals of Lord Hunt's Advisory Board for bringing the Ulster police system as closely as possible into line with that in Great Britain; and they agreed with the Home Secretary's proposals for the publication of the report, the announcement of decisions on it and the appointment of the new Inspector-General. They agreed also that he should bring in a Bill to make possible the transfer and secondment of police from forces in Great Britain to the RUC. They agreed with the proposal to abolish the USC; but they shared the unease of the Home and Defence Secretaries about the proposed defence force, to which there were several cogent objections. But they accepted that there was no satisfactory alternative way of providing for the
long-term protection of the border and of key installations, given that the British Army could not undertake the entire burden. Furthermore, the force would be a necessary political counterweight to the abolition of the USC; if nothing were put in its place, it might not be possible to contain the reaction by the Protestants to the abolition of the force on which they pinned such reliance. So long as the essential condition that the GOC, and through him the Westminster Government, controlled the new force was met, the Cabinet reluctantly accepted that it was the best solution in a most delicate and intractable situation. The Hunt Report had not given a definitive answer to the problem how to associate the Northern Ireland Government with the management of the new force in order to secure their co-operation. The Home Secretary, in consultation with the Defence Secretary, should have discretion for this purpose in working out an acceptable arrangement, subject to ensuring that the ultimate control of the force was safeguarded in the manner which the Cabinet considered essential.

The Cabinet -

(1) Took note, with approval, of the Prime Minister's summing up of this part of their discussion.

(2) Invited the Home Secretary to proceed with the arrangements for introducing the reforms of the RUC as agreed in discussion, and to bring in a Bill to provide for the transfer and secondment of Great Britain police.

(3) Invited the Home Secretary, in consultation with the Defence Secretary, to secure the best practicable arrangements for control of the new defence force, subject to the essential requirements agreed in discussion, and to report to the Cabinet.

(4) Invited the Defence Secretary, in consultation with the Home Secretary, to consider urgently the necessary legislative provision in the United Kingdom Parliament for establishing the new defence force.
THE HOME SECRETARY said that the two Governments had received reports from the three Working Parties and the economic mission of officials which he had initiated on his visit to Ulster in August. The three Working Parties had examined the extent to which the Northern Ireland Government's present practice or pledged commitments adequately ensured the promotion of good community relations by methods including the prohibition of incitement to religious hatred; the avoidance of any discrimination in any form of public employment; and the fair allocation of houses by public authorities. The economic mission had assessed the economic and industrial prospects in Northern Ireland in the light of recent events. He proposed in his forthcoming visit to discuss what action should follow from these reports. The conclusions of the Working Parties on community relations and on the avoidance of discrimination in public employment were comprehensive and acceptable; but he considered that the proposals of the Working Party on housing allocation—that reliance should be placed on the new allocation schemes and on the Commissioner for Complaints as a long stop—would not go far enough to satisfy the Roman Catholic minority that there was no discrimination. He advocated transferring all public authority housing to the Northern Ireland Housing Trust, which had a reputation for impartiality. It owned 40,000 houses (in comparison with the local authorities, which owned 76,000) and its organisation could be expanded to undertake this extra task. He did not think that even the proposed new enlarged local authorities in Northern Ireland could be relied upon to administer housing without discrimination; and he could see no grounds why housing, any more than education, should not be administered as a central service for the whole Province. He was well aware that his proposal would arouse opposition and that it would leave the local authorities with limited functions; but this was a price which would have to be paid to ensure that the housing problem was properly dealt with.

The economic mission's report was encouraging for the short term; but it carried a warning that the longer term effects were potentially very serious. In the light of their report, the Northern Ireland Government proposed immediate measures to reassure investors about compensation for future riot damage and to restore relative levels of inducement; and they proposed that a £2 million programme of labour intensive works, directed in particular at the peak unemployment areas of the west, should be undertaken. He doubted whether these proposals would be sufficient to solve the unemployment problem or to ensure an acceptable future rate of economic progress; but he invited the Cabinet to agree to them in principle so that he could base his forthcoming discussions upon them.
In discussion there was general agreement with the Home Secretary's attitude to the reports and to his proposals for acting upon them. It was pointed out however that his proposals for public authority housing would make this a 100 per cent charge on the Exchequer. There would also have to be financial discussions between the Treasury and the Northern Ireland Ministry of Finance on the proposal to increase by £1 million the special capital programme.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet endorsed the Home Secretary's views on the reports of the three Working Parties and the economic mission. They authorised him to discuss action on them accordingly with the Northern Ireland Government during his forthcoming visit, subject to a full examination of the financial considerations mentioned in discussion.

The Cabinet -

(5) Invited the Home Secretary to proceed as proposed in C(69)131, subject to full consultations as appropriate on the financial points.

Cabinet Office, S.W.1,

9th October, 1969
CABINET

CONFIDENTIAL ANNEX

CC(69) 48th Conclusions, Minute 2

Tuesday, 14th October, 1969 at 10.30 a.m.

THE HOME SECRETARY, reporting on his visit to Northern Ireland, said that a full account of his discussions with the Northern Ireland Government was given in the communique issued on 10th October, copies of which he had circulated to the Cabinet with C(69) 139. He was convinced that the Northern Ireland Government would do their best to push the reforms through, because they recognised that they could not go back, and they believed that they could hold their Party together. But he confessed to an inner concern and it remained to be seen whether the disturbances would build up to a new peak or gradually die away; the previous night had been fairly quiet. He was however sure that there would have been real trouble had the Cabinet not decided to institute a new local defence force to replace the Ulster Special Constabulary (USC); it was very likely that the USC would have gone underground. As regards the Royal Ulster Constabulary (RUC), his impression was that the change to a civilian police role was generally welcome, even among senior officers; and he believed that the RUC would be prepared, if need be, to act against the USC. The new Inspector-General, Sir Arthur Young, was off to a good start; and as soon as he was well established they should review the arrangements whereby the police came under control of the General Officer Commanding (GOC), with a view to giving the Inspector-General more freedom of action. His opinion should also be given full weight in deciding when it was safe to withdraw troops from the various areas.

THE DEFENCE SECRETARY said that in his judgment troops were likely to be required in Northern Ireland for a considerable period; little confidence would be placed in the local forces by Catholics until they were seen to be working efficiently and fairly, particularly in the matter of promotion, and that might take until the end of next year. He agreed that the relationship between the RUC and the GOC should be reviewed; indeed there was a need to look again at the arrangements which had been improvised and to
Improve communications between the two Governments and the advisers stationed at Stormont and with the GOC. Intelligence of feeling among Protestants was still poor, though it was improving; but the Shankill Road riots showed signs of organisation and he had little doubt that some members of the USC were involved. The risk that organised elements of the USC would go underground had formed a large part of the case for establishing the proposed new local defence force; and he hoped that it might be possible to set this up at the beginning of the New Year, though ideas had still to be clarified. Legislation of the United Kingdom Parliament would be required; and he thought that this should be announced in The Queen’s Speech.

In discussion there was general appreciation of the skill shown by the Home Secretary in negotiating with the Northern Ireland Government, which had done much to allay fears expressed by some members of the Cabinet during the previous discussion. Every effort should be made to settle policy on the new local defence force before the Debate on the Address. The aim should be to introduce legislation for this purpose and to facilitate the transfer and secondment of Great Britain police during November; the Opposition were not likely to obstruct its passage.

THE PRIME MINISTER, summing up the discussion, said that he wished on behalf of the Cabinet to congratulate the Home Secretary on his success in achieving the objectives on which they had agreed during the discussion on 7th October. The Home and Defence Secretaries should consider urgently, in consultation with the Lord President, what provisions needed to be included in the proposed legislation and should report back to the Cabinet.

The Cabinet –

(1) Took note, with approval, of the Prime Minister’s summing up of their discussion.

(2) Invited the Home and Defence Secretaries, in consultation with the Lord President of the Council, to consider urgently the content of the proposed legislation and to report to the Cabinet.

Cabinet Office, S.W.1.

14th October, 1969
CAB 128/46 (extracts)

1. Note of meeting held on 15.3.68
2. CC (68) 21st (CIA)
3. CC (68) 22nd (CIA)
4. CC (68) 47th (CIA)
5. CC (68) 48th (CIA)
CAB 128/46 (EXTRACTS)

1. NOTE OF MEETING HELD ON 15.3.68
2. CC (68) 21st (CIA)
3. CC (68) 22nd (CIA)
4. CC (68) 47th (CIA)
5. CC (68) 48th (CIA)
CAB 128/46 (Extracts)

1. Note of meeting held on 15.3.68
2. CC (68) 21st (C/IA)
3. CC (68) 22nd (C/IA)
4. CC (68) 47th (C/IA)
5. CC (68) 48th (C/IA)
NOTE of a Meeting at No. 10 Downing Street, S.W.1., on
FRIDAY, 15th MARCH, 1968
at 1.15 a.m.

PRESENT

The Rt. Hon. Harold Wilson, MP
Prime Minister

The Rt. Hon. George Brown, MP
Secretary of State for Foreign Affairs

The Rt. Hon. Foy Jenkins, MP
Chancellor of the Exchequer

The Rt. Hon. Anthony Crosland, MP
President of the Board of Trade

The Rt. Hon. Peter Shore, MP
Secretary of State for Economic Affairs

The Rt. Hon. Fred Peart, MP
Minister of Agriculture, Fisheries and Food

The Rt. Hon. Michael Stewart, MP
First Secretary of State

The Rt. Hon. Patrick Gordon Walker, MP
Secretary of State for Education and Science

The Rt. Hon. George Thomson, MP
Secretary of State for Commonwealth Affairs

The Rt. Hon. R. J. Gunter, MP
Minister of Labour

The Rt. Hon. Richard Marsh, MP
Minister of Power

The Rt. Hon. Anthony Wedgwood Benn, MP
Minister of Technology

SECRETARY

Sir Burke Trend
THE PRIME MINISTER said that developments of the last few hours as regards the international monetary situation and the decision to seek the approval of the Privy Council to the proclamation of a bank holiday, which he and the Chancellor of the Exchequer had had to take at very short notice, had led him to call a meeting of the Cabinet at 10.30 on the following morning in order that all Ministers should be informed of the grave situation which was now emerging. But it had been represented to him that some Ministers, who had been meeting in the House of Commons in what appeared to have been almost an irregular session of the Cabinet, wished to be brought into more formal consultation forthwith; and he had therefore agreed to receive immediately such members of the Cabinet as could be collected from the House.

THE CHANCELLOR OF THE EXCHEQUER said that during the evening he had learned that, as a result of the continuing and increasing international speculation in gold, the United States authorities were considering taking action to limit their undertaking to buy and sell gold at the fixed price of $35 per ounce to those Central Banks which would undertake to confine gold transactions to other Central Banks which agreed to observe the same restriction and to refuse to indulge in market speculation. The implications of such a step for us would be far reaching. But it had been impossible to obtain any clarification of the real intentions of the United States until the Secretary of the United States Treasury, Mr. Fowler, had got in touch with him by telephone at about 10.40 p.m. and had conveyed a request that the British Government should close the London gold market on 15th March. There had been a parallel communication from the Governor of the Federal Reserve Bank, Mr. Martin, to the Governor of the Bank of England, including a statement that the United States authorities proposed to convene a conference in Washington over the weekend, to be attended by representatives of the Central Banks and Finance Ministries of such of the countries members of the international Gold Pool as were willing to attend in an attempt to re-establish orderly international monetary arrangements before trading was resumed on Monday.

The Governor of the Bank of England had advised him to accept the proposal that the London gold market should be closed on 15th March. He had also proposed that that day should be declared an official bank holiday in order that we might be able to suspend dealings in foreign exchange, as was essential if we were to maintain the existing exchange rate for sterling.

In these circumstances he had seen no alternative to accepting this advice - but only on condition that, since the New York market would remain open on 15th March and sterling would therefore remain exposed to pressure, the United States authorities would give us a firm undertaking to provide whatever support for sterling was required during the day. In addition it would be necessary to interpret the bank holiday in a manner which, while inhibiting the banks from exchange dealings, would allow them to conduct normal domestic business, particularly as regards the provision of cash for the payment of wages.

An immediate decision had been essential if we were not to face, as soon as the day's business began, a loss of reserves on a scale which could make it impossible for us to maintain the new parity of sterling. We had not yet succeeded in making good the very heavy drain on our reserves at the time of devaluation; and we could not afford to take any further risks of weakening the sterling/dollar parity.
THE PRIME MINISTER emphasised that the losses which the reserves had suffered on the previous day (Thursday, 14th March) had been heavy; and during the Friday which still lay ahead we might well sustain - unless we took preventive action - further losses on a scale comparable with the catastrophic drain on the day before the devaluation of the previous November. The situation earlier in the evening had been very unclear; in particular Mr. Fowler had not been specific in his telephone discussion with the Chancellor of the Exchequer and the line had been bad. But, when he and the Chancellor of the Exchequer had subsequently been able to consider the situation with the Governor and Deputy Governor of the Bank of England, it had been clear that we had no alternative to meeting the United States request provided that the United States authorities would undertake to support the sterling rate in New York during 15th March. This undertaking had been subsequently confirmed in a telephone conversation between the Governor and Mr. Martin; and thereafter it had been necessary to arrange for a meeting of the Privy Council to validate the bank holiday as a matter of extreme urgency. The Lord President, who normally have attended the Privy Council, could not leave the House of Commons; but he had been informed of the situation and efforts had been made, unsuccessfully, to contact the Foreign Secretary. The Secretary of State for Economic Affairs, who happened to be available, had therefore accompanied him and the Chancellor of the Exchequer to Buckingham Palace in order to establish a quorum for the Privy Council. There had been no alternative to action on these lines and at this speed. Had we not acted as rapidly, we faced the prospect of a loss of reserves which could be of the order of £300 or £400 million during the day which lay ahead.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that there was no question that the course which had been adopted was necessary and right. It was important, however, that the general public should understand that our action had been taken at the request of the United States authorities. But what now should be our tactics at the forthcoming conference of monetary authorities in Washington?

THE PRIME MINISTER said that this would need further thought; but the action which we had taken would at least have minimised the extent to which sterling could be threatened. The pressure on sterling would be further eased if, by Monday, it had been agreed either that the gold price should be raised or that gold should be demonetised.

THE PRESIDENT OF THE BOARD OF TRADE said that the episode raised certain issues of the machinery of Government. In the circumstances it would clearly have been impossible to summon the whole Cabinet; but there were certain Ministers who would have wished to have the opportunity to express their views on a situation which had now been developing for several days and could, to that extent, have been foreseen. It would surely not have been impossible to assemble at least a small group of Ministers before the decision to arrange a meeting of the Privy Council had been taken. As it was, the statement which he himself had made in the House of Commons that afternoon, indicating that we would be prepared to accelerate our implementation of the Kennedy Round decisions, would now be liable to look ridiculous.

THE FOREIGN SECRETARY said that he agreed. Why had the Cabinet, at their meeting that morning, been given no hint that this situation was likely to arise?
THE PRIME MINISTER replied that there had been no indication of any change in the United States position until 6.00 p.m. that evening; and even then all that was known was that the Governor of the Federal Reserve Bank was calling on President Johnson. In these circumstances he had sent the President a message, which was necessarily couched in general terms but did at least warn him that sterling and the dollar must hold together if we were not to be driven to take action in protection of sterling which might be unpalatable to the United States authorities. At 7.30 p.m. he had tried to make contact with the Foreign Secretary, both as Deputy Leader of the Parliamentary Labour Party and in his Departmental capacity in case issues of our relations with the United States were involved. But he had been unable to find him.

THE FOREIGN SECRETARY said that he had never been out of reach of the telephone during the whole evening.

THE PRESIDENT OF THE BOARD OF TRADE said that this argument was not particularly relevant; but other economic Ministers were involved and might have been consulted.

THE PRIME MINISTER said that a message just received from the Lord President in the House of Commons suggested that there was now considerable disorder in the House.

THE FIRST SECRETARY OF STATE commented that in that case it was fortunate that both the Foreign Secretary and he himself had had at least some inkling of what was afoot while they were in the House.

THE CHANCELLOR OF THE EXCHEQUER said that he would have welcomed an opportunity to take advice from other economic Ministers; but there simply had not been time to do so. As regards warning them earlier in the day, he had had no reason to suppose, when the Cabinet met that morning, that this situation would arise.

THE FOREIGN SECRETARY replied that, even if the situation did not arise until the evening, all the Ministers concerned were available. The whole matter had been handled with great arrogance.

THE CHANCELLOR OF THE EXCHEQUER replied that he had often warned the Cabinet that sterling was still in an exposed and sensitive position. But he could only repeat that he had had no knowledge at the morning's Cabinet that it was now in a particularly dangerous situation - indeed it was not until 4.00 p.m. that the first intimation of this kind had reached him.

THE PRIME MINISTER then spoke on the telephone to the Lord President; and they discussed whether the statement which the Chancellor of the Exchequer would have to make in the House of Commons about the proclamation of a bank holiday and the closing of the London gold market should be made forthwith rather than be held until after Questions later in the day. In any event he should make it clear that the banks were being closed, as regards foreign exchange transactions, at the request of the United States authorities and in order to prevent disorder in financial markets.

THE FOREIGN SECRETARY observed that, even so, this statement would create an impression that sterling was now in danger; and it might be impossible to hold the parity.
THE CHANCELLOR OF THE EXCHEQUER replied that, however that might be, there had simply been no time to consider any alternative course.

THE PRIME MINISTER endorsed this statement. The situation earlier in the evening had been very confused and uncertain. It had not been until about 4 o'clock in the afternoon that we had had any indication of the way in which the mind of the United States authorities might be moving; and it had not been until shortly after midnight that we had been able to secure the United States undertaking to support sterling, which was essential if we were to meet their request that dealings in gold and foreign exchange in London should be suspended. Thereafter it had been necessary to move with the utmost speed.

THE CHANCELLOR OF THE EXCHEQUER said that his colleagues must ask themselves what other course could in fact have been adopted. If we had not agreed to close the London gold market and to suspend foreign exchange transactions, the sterling parity would have collapsed within 24 hours. But, by taking the action which the Privy Council had endorsed, we now had at least a chance to discuss at the forthcoming monetary conference the possibility of making some more satisfactory arrangements in the longer term.

THE PRIME MINISTER said that he would certainly ask the Cabinet, as a whole, on the following day if they supported the action which had been taken. But he agreed with the Chancellor of the Exchequer that the Cabinet would have to consider the probable consequences if we had refused to accede to the United States request. There was a real danger that, if the United States Government obtained the approval of the Senate to release the gold which was at present earmarked as backing for the currency, they would be very tempted to use it to maintain the existing gold/dollar parity for as long a period as possible, during which sterling could be overwhelmed.

THE PRESIDENT OF THE BOARD OF TRADE repeated that, even so, he felt that it should have been possible for a few Ministers to discuss this grave issue before any decision was taken.

THE PRIME MINISTER replied that there had been no time for this. The situation had not begun to become clear until 11.00 p.m.; and by then urgent action was imperative if the banks were to be warned of the bank holiday in time.

THE FOREIGN SECRETARY said that it remained true that the Prime Minister and the Chancellor of the Exchequer had acted by themselves and on their own authority. They could have consulted other Ministers at any time from 6.00 p.m. onwards.

THE PRESIDENT OF THE BOARD OF TRADE said, once again, that he, too, resented being excluded from the discussion of such grave contingencies.

THE MINISTER OF TECHNOLOGY said that the decision taken had clearly been right.

THE FIRST SECRETARY OF STATE said that the substance of the matter was too serious for Ministers to waste time arguing about procedure. Nevertheless, the incident had certain lessons for the future. It was a fact that from 5.00 p.m. onwards some Ministers at least could have been warned, since from that hour the possibility of some action must clearly have been in the Chancellor of the Exchequer's mind.
THE CHANCELLOR OF THE EXCHEQUER said that this was not so. He had naturally considered a ban on dealings in gold and foreign exchange as one of a number of alternative steps which might have to be taken; but he had no reason to suppose that the United States would ask us to take it.

THE FIRST SECRETARY OF STATE repeated that, even so, some Ministers might have been warned. It had been sheer luck that a few of the Ministers in the House of Commons had realised, before the Prime Minister and the Chancellor of the Exchequer went to the Palace, that something was afoot and had therefore not been wholly unprepared for some significant development. But it was untrue to say - as the Prime Minister had earlier implied - that, when a few of them thereafter met in the House to speculate on what was happening, their discussion amounted to an irregular meeting of the Cabinet. In the circumstances the Foreign Secretary could not have done less than tell such of his colleagues as were available that the Prime Minister and the Chancellor of the Exchequer had gone to see The Queen; and it had been natural and inevitable that those Ministers should then wish to talk the matter over. He did not dispute that there had been no real choice about the action to be taken. But it remained true that there had not been as much prior consultation between Ministers as there might have been; and in future some machinery should be devised to prevent decisions of this kind being taken by the Prime Minister alone or with only one other colleague.

THE PRIME MINISTER asked whether this would really have been possible at 10 minutes past midnight.

THE FOREIGN SECRETARY agreed that it would not; but it would have been perfectly possible at 10 minutes past 6 in the evening. He repeated that there had been no telephone call from No. 10 to the Foreign Office in an attempt to establish contact with him in those few hours.

THE PRIME MINISTER replied that he had tried for over an hour to find the Foreign Secretary.

THE FOREIGN SECRETARY repeated that there had been no telephone call.

THE FIRST SECRETARY OF STATE said that there was no point in pursuing this dispute; there might have been some misunderstanding in the transmission of the message.

THE FOREIGN SECRETARY said that there had been no misunderstanding. The Prime Minister was trying to cover up a monumental muddle; and he did not accept his version of the episode.

At this point the Foreign Secretary left the meeting.

THE PRESIDENT OF THE BOARD OF TRADE said that the Foreign Secretary's behaviour was regrettable; but perhaps one could hardly blame him.

THE PRIME MINISTER said that he could not accept a situation in which the Foreign Secretary denied his assurance that he had tried to make contact with him and asserted that he had deliberately deceived other Ministerial colleagues.
THE PRESIDENT OF THE BOARD OF TRADE said that, of course, he accepted the Prime Minister's word on this. But it was still true that from 6.00 p.m. onwards the Prime Minister would have been wiser to bring a few other Ministers into consultation.

THE CHANCELLOR OF THE EXCHEQUER said that there would have been no point in doing so, since at that point there was no firm proposal for Ministers to consider. It was not until 10.40 p.m. that he had received the American request - and then it had taken a form which we had not expected. Moreover, it was not until he had spoken to the United States Secretary of the Treasury (and the Governor of the Bank of England had subsequently confirmed this conversation with the Governor of the Federal Reserve Bank) that the real nature of the United States proposal was clear. This had been at 11.00 p.m. It would have been impossible at that point to refuse to act as the United States had asked us to act; but speed was then the essence of the matter if the banks were to be warned in time before business began in the morning.

THE SECRETARY OF STATE FOR EDUCATION said that he agreed. It would have been impossible to take any meaningful action at 6.00 p.m.

THE PRESIDENT OF THE BOARD OF TRADE said that he was not convinced on this point. But it was too late now to discuss this question profitably. As far as he was concerned there was no need for the matter to be reported to the Cabinet.

THE PRIME MINISTER said that, on the contrary, the Cabinet would need to discuss the tactics that we should adopt at the forthcoming monetary conference. In particular, we must ensure that the political implications of the situation were taken fully into account in any technical decisions which might be reached.

THE SECRETARY OF STATE FOR ECONOMIC AFFAIRS said that, as one who had become involved in the incident largely by accident (because he happened to be available when a Minister was required to make up a quorum for the Privy Council), he could endorse all that the Prime Minister and the Chancellor of the Exchequer had said about the need to act with great speed. Nevertheless, there was force in the views which had been expressed in so far as the real object of criticism was the curtain of secrecy behind which the Treasury concealed their conduct of economic policy. Many of the issues hidden behind this curtain needed more collective consideration.

THE PRIME MINISTER said that he would ask the Cabinet later in the day whether any Minister thought that he and the Chancellor of the Exchequer could, or should, have acted differently.

THE PRESIDENT OF THE BOARD OF TRADE said that he, for one, would not be able to say that he did not think that they could have taken any other course. Having heard the present discussion, he simply did not know.

THE MINISTER OF LABOUR said that, personally, he was satisfied that the decision taken had been right and that, in circumstances of this kind, prior consultation was impossible. A discussion had been unnecessary; and Ministers should never have taken it on themselves to come to No. 10 at that hour in the morning if their only purpose was to make some of the statements which had been made. The matter would now be better left until the Cabinet met later in the day.
THE PRIME MINISTER said that he had thought it right to arrange a meeting of the Cabinet at very short notice in order that Ministers might be fully informed about the most recent developments in the international monetary situation, which it had been necessary to confront during the previous night.

THE CHANCELLOR OF THE EXCHEQUER said that in recent days the demand for gold had reached unprecedented heights; and the pressure on sterling resulting from the demand for dollars as a means of purchasing gold, had now reached a dangerous level at a moment when our reserves of foreign exchange were still far too low to withstand a continued drain. About mid-day on the previous day we had received an indication that the United States authorities were beginning to think that some action would be required to stem the demand for gold; and, although it was far from clear what form this action might take, a rapid examination of its various possible forms had shown that their implications could not be other than very unwelcome to us. It was not until late in the evening, however, that the Secretary of the United States Treasury, Mr. Fowler, had informed him by telephone that the United States Government intended to convene in Washington during the forthcoming weekend a conference of representatives of the Central Banks of the countries members of the Gold Pool in an endeavour to restore stability in the international monetary situation; and that, as an essential preliminary they must ask us to close the gold market in London. This request had been reinforced by a parallel discussion at about the same time between the Governor of the Federal Reserve Bank, Mr. Martin, and the Governor of the Bank of England. It was clear that, if we took action of this kind, it would be necessary to arrange that 15th March should be a bank holiday, since, if we continued to allow foreign exchange dealings, pressure on sterling could develop on a scale which would make it impossible for us to maintain the parity. But ordinary domestic banking business could be permitted; in particular, cash for the payment of wages would continue to be available. The Stock Exchange, however, should be closed.
In the circumstances we had had no alternative to acceding to the United States request to close the London gold market. Had we not done so, we could not have faced the drain on our reserves which would have developed that day, more particularly if we had alienated the sympathy of the United States who alone were in a position to help us to support the sterling parity. On the other hand, it had been essential to obtain from the United States authorities an assurance that, in return for our agreement to close the gold market in London while the markets elsewhere remained open, they would provide whatever support for sterling was required in New York to enable us to maintain the parity. Once we had obtained this assurance, by means of a further telephone conversation between Mr. Martin and the Governor of the Bank of England, it was necessary to take the most urgent action to obtain the approval of The Queen in Council to a proclamation of a bank holiday if instructions were to be issued to the banking system in time to be effective at the opening of business. The Privy Council had therefore been arranged at 12.30 a.m.; and he himself had explained the situation to the House of Commons in a statement at 3.30 a.m.

In discussion some Ministers expressed concern that decisions of this importance had been taken without collective Ministerial consideration. This was merely the latest of several occasions on which issues of monetary policy had been judged to be of such secrecy and complexity that decisions had been reserved virtually to the Prime Minister and the Chancellor of the Exchequer of the day. The deflationary policy adopted in July, 1966; the act of devaluation decided in November, 1967; and now the action which we had been compelled to take on the previous night - these were successive examples of decisions which the Cabinet had been forced to take at very short notice and without the benefit of any preliminary discussion on the basis of considered appreciations of alternative courses of policy and their implications. In each case, however, it had been sufficiently clear for some time before the critical moment that a dangerous situation might develop; and there had been ample opportunity for the Cabinet to discuss the issues involved while there was still time to examine them in detail and to reach a deliberate judgment. This was less than satisfactory if the concept of collective responsibility was to retain its meaning; and alternative arrangements should be made to ensure that in future the Cabinet would be given an opportunity to discuss issues of this gravity before they were overtaken by events. Their recent prolonged examination of future policy on prices and incomes illustrated the value to be obtained from full collective discussion of major issues of economic policy.

On the other hand the prices and incomes policy was a matter which lay essentially within the Government's control, whereas the possibility of a change in the price of gold and the probable attitude of the United States Administration to this question were matters which the Government had little, if any, power to influence. Nor was there any reason to suppose that even the most protracted discussion of the complex issues involved would have enabled Ministers to reach any decision other than that
which the Prime Minister and the Chancellor of the Exchequer
had been compelled to take on their own responsibility during
the previous night. In fact, it had only been at a very late
hour that the United States intentions had been established with
sufficient certainty to make it realistic to contemplate taking
any decision at all; and by that time the need to take action as
regards the closing of the gold market and the proclamation of
a bank holiday was so urgent that it would have been impossible
for Ministers to be gathered together in time to debate these
issues.

In further discussion there was general agreement that
the decisions which the Prime Minister and the Chancellor of
the Exchequer had taken in the small hours of the morning
had been right beyond any question. Indeed, if those decisions
had not been taken, the Cabinet might be meeting that morning
in very different circumstances to deal with a far graver
situation. Nevertheless, it remained desirable in principle
that for the future some rather more effective arrangement
should be made to ensure that, even on the most sensitive
issues of economic and financial policy, a sufficiently representa-
tive body of Ministers should be brought into consultation to
safeguard the concept of collective responsibility. And, if the
price of such an arrangement was the risk of premature and
unauthorized disclosure of highly secret information, that
risk must be accepted.

THE PRIME MINISTER, summing up this part of the
discussion, said that he recognised the force of the views which
had been expressed and would give further consideration to the
possibility of meeting the wishes of the Cabinet in this respect.
He had regretted that it had not been possible to arrange for
collective discussion of the issues which he and the Chancellor
of the Exchequer had had to confront on the previous evening;
but he had in fact been able to inform about half the Cabinet,
who had been assembled by the Foreign Secretary at the House
of Commons and had been brought to see him at No. 10. In the
absence of the Foreign Secretary from the Cabinet it would not
be right or profitable to discuss the attitude which the Foreign
Secretary had adopted during and after that discussion; but he
appreciated that some Ministers took exception to it.

The Cabinet should now consider the policy which we
should adopt henceforward in dealing with probable further
developments in the international monetary situation.

THE CHANCELLOR OF THE EXCHEQUER said that,
although it was the dollar which was currently under pressure,
circumstances might well develop in which the dollar could
nevertheless survive at its present exchange value for some
time longer but it might become impossible to maintain the
parity of sterling. Our main purpose, therefore, must be to
organise sufficient additional support for sterling, preferably
in the form of an open-ended line of credit, to enable us to

-3-
maintain the parity during the next few weeks. There was little doubt that those weeks would see a very profound change in the international monetary situation, a change which might in effect bring the sterling area to a virtual end in view of the rapid diversification of sterling balances which was almost inevitable as soon as normal trading was resumed. This process could be effected in an orderly way, in which case it would be to our long term advantage. But, if it was carried out in circumstances of international confusion and chaos, the effects on the British economy could be very damaging indeed.

Much would depend on the policy which the United States authorities adopted towards the continuing demand for gold. They might decide to increase the price of gold; and in certain circumstances this could be helpful to us. On the other hand expert opinion was inclined to believe that the demand for gold was now of such intensity that even a doubling of the price might not suffice to check it. Moreover, the United States Government were so heavily committed politically to maintaining the price at its present level that it was very unlikely that they would adopt an increase in the price as a deliberate policy. In practice, therefore, we could expect little help in this respect.

Alternatively, the United States authorities might demonetise gold by unilaterally suspending their sale and purchase of the metal. The exchange value of the dollar would then be left, in effect, to float. We should still need to seek to link sterling to the dollar at the present parity; but, if we were to succeed, we should need very substantial United States support for sterling.

A third course open to the United States would be to adopt a dual system of gold transactions, whereby they would maintain the gold price at the present rate of $35 per ounce for the purposes of exchange with a limited number of Central Banks who would undertake not to market it or to make it available for speculation; but in the open market they would allow the price of gold to find its own level, which would inevitably be higher than $35. A system of this kind, however, would be inherently unstable; and, if sterling was to accommodate itself to an arrangement of this nature, it would need support on an extensive scale.

Finally, the United States authorities might seek to maintain the present system, possibly with the modification of the introduction of a gold certificate as a means of giving the holders of dollar balances an insurance against any subsequent change in the dollar value of gold. On balance, this was the course which they were most likely to adopt; and, if they were unable to command sufficient support to maintain the present system, demonetisation would probably be their second choice. Neither course would be as attractive to us as an increase in the price of gold; but the United States authorities were very unlikely to embrace this policy. We must therefore concentrate all our efforts, particularly at the forthcoming conference of the representatives of the Central Banks of the Gold Pool countries, on securing, partly from Europe and partly from the United States, a further substantial line of credit as
a means of ensuring the support which sterling would certainly need in the weeks ahead, whichever course the United States adopted. In addition, we must prepare as a matter of urgency a contingency plan for emergency action if, by the following Monday, it was clear that this conference had failed and that renewed disorder in financial markets must be expected. If in those circumstances we took no action to protect our interests (e.g. by blocking the sterling balances), we should probably be driven to allow the sterling rate to float. But we no longer had sufficient reserves to support it; particularly since we should be in default to the International Monetary Fund (IMF) and should therefore forfeit our drawing rights on the Fund. As a result a floating rate would fall to successively lower levels; and we should face the prospect of a renewal of the conditions which had developed in the 1930s, when a failure of confidence on a world-wide scale had precipitated a contraction of international trade and had dislocated the whole system of international payments. On the other hand, if we could secure further support for sterling in the weeks ahead and could ensure that the forthcoming monetary conference was conducted on positive and constructive lines, it might thereafter be possible to devise a political basis on which to reorganise the international monetary system and to increase international liquidity by activating the special drawing rights which had been agreed in principle at the meeting of the IMF at Rio de Janeiro in the previous autumn.

THE PRIME MINISTER informed the Cabinet of the messages which he had exchanged with the President of the United States, President Johnson, during the previous night. He had warned the President that some of the possible courses open to the United States authorities might temporarily relieve their embarrassment but at the almost certain cost of intrinsic damage to sterling; and that, if this were to happen, the dollar too would ultimately be at risk. He had therefore made it clear that, if the United States Administration took a decision which put sterling in danger, it was essential that they should support sterling during the days immediately ahead; otherwise, either both currencies would be devalued or we ourselves should have to take urgent action to protect sterling, which would transfer the whole of the speculative pressure to the dollar. In his reply President Johnson had emphasised that he hoped to deal with the present situation in a way which would contribute to the development of a more stable and satisfactory international monetary mechanism. He had stressed the importance which he attached to the maintenance of a very close link between the British and United States authorities in this matter but had made it clear that he would personally find any change in the price of gold unacceptable.

In discussion there was general endorsement of the lines on which the Prime Minister had approached President Johnson. In particular, the implied warning that in certain circumstances we might have to contemplate a second devaluation of sterling might be our most effective means of persuading the United States Administration that they had no alternative to promoting further international credit to support it. None of the possible courses of action which they might adopt would be
demonstrably to our advantage in the short term. In particular, the dual system would be unworkable, since it would be impossible to maintain two gold prices in simultaneous but separate operation for very long; while an increase in the price of gold would benefit countries which, on the whole, were hostile to us and, by implying that further increases in price were possible, might reduce, rather than increase, international liquidity. The principal danger, however, was that the United States would adopt the easiest course by seeking in effect to maintain the present system and refusing to contemplate any drastic or fundamental change in international monetary arrangements - whereas it might be to our long term advantage to seek to move in the direction of the demonetisation of gold, while maintaining the link between the sterling and dollar parities. This, however, was entirely dependent on our securing additional support for sterling on an adequate scale.

Ultimately we had most to fear if the short term solution which was adopted did nothing to reduce or to eliminate the essential instability in the present monetary system. This was a political, rather than a technical, issue: and what was required was essentially an act of political will directed to bringing into force the system of special drawing rights. Hitherto all attempts to achieve this had been frustrated by the refusal of the French Government to allow the monetary authorities of the European Economic Community (EEC) to co-operate in activating these drawing rights. But we must maintain our efforts to overcome this obstruction; and we should seek to promote a series of international conferences, both political and technical, directed towards a thorough-going reform and reorganisation of the international monetary system.

In further discussion it was suggested that the Government should be concerned to ensure, so far as possible, that public opinion was adequately informed about the real issues at stake in this highly complex matter. Properly presented, the monetary crisis could provide a favourable context for the forthcoming Budget, which could now be seen as essentially the British contribution to the solution of a problem which was world-wide in its scope. This, however, would depend on a conscious and concerted effort to explain to the public the nature of the problem which now confronted us, the reasons for its sudden emergence and the means by which we might best seek to grapple with it. These questions would need to be dealt with as part of the presentation of the Budget in the weeks ahead.

The Cabinet -

(1) Took note, with approval, that the Prime Minister would arrange to constitute a small group of Ministers who would keep the situation under constant review during the weekend and would report to an early meeting of the Cabinet.
(2) Agreed that, if it became necessary to extend the bank holiday which had been arranged for that day, the Chancellor of the Exchequer should make the necessary arrangements.

(3) Agreed that the purpose of our representatives at the forthcoming meeting of Central Banks of the countries members of the Gold Pool should be to secure the maximum additional support for sterling in the weeks ahead.

Cabinet Office, S. W. 1.

16th March, 1968
THE PRIME MINISTER said that, in accordance with the decision at the Cabinet's last meeting, a small group of senior Ministers under his own chairmanship had met several times during the weekend in order to keep under review the development of the international monetary situation in the light of the Washington conference of representatives of certain Central Banks members of the international Gold Pool. In the event the outcome of that conference, as recorded in the communique issued on the previous evening, had been not wholly unsatisfactory from our point of view; and there had been no point at which, by pressing a particular point of view, we could have decisively influenced the course of the proceedings. The group of Ministers had therefore decided that there was no need to summon the Cabinet at short notice during Sunday evening; but Ministers would now wish to consider the situation and its implications at relative leisure.

THE CHANCELLOR OF THE EXCHEQUER said that it had become clear at an early stage in the international conference that, despite the intense speculation in gold during the previous week, the United States authorities were still not prepared either to increase the price of gold or to adopt a policy of demonetisation. They had preferred to sponsor a dual price system and, since the other countries represented at the conference had been ready to accept this, we ourselves had concentrated on securing the maximum additional support for sterling, which would be exposed to fresh pressure as soon as operations on the basis of a dual price system began in the world exchange markets. We had secured assurances which would bring the total of such support to a figure of $4,000 million. Of this figure, however, $1,800 million represented our own resources; a further $1,400 million was constituted by the stand-by facilities which the International Monetary Fund (IMF) had earlier put at our disposal; and only $1,200 million therefore represented genuinely new support. Nevertheless, this margin of additional resources, coupled with the fact that the IMF stand-by facility would now be...
released from the so-called "negative pledges" and would therefore be more easily and rapidly available if required, should be sufficient to safeguard sterling against an unacceptable strain in the days ahead. An additional measure of stability should be provided by the agreement between the Central Banks represented at the international conference "to co-operate even more closely than in the past to minimise flows of funds contributing to instability in exchange markets and to offset, if necessary, any such flows that may arise in view of the importance of the dollar/sterling in the International monetary system." He and his colleagues in the Ministerial group had therefore judged that it was preferable to accept a settlement on this basis than to embark on either of the very grave alternative courses of blocking the sterling balances or allowing the exchange rate for sterling to float. Nevertheless, a situation might develop in which we should be forced to contemplate action on one or other of these hypotheses; and their implications should now be studied as rapidly and intensively as possible.

The Ministerial group had also had to consider whether the ban on dealings in foreign exchange which had operated on the previous Friday and Saturday should be maintained on Monday and Tuesday, a course which would have involved proclaiming additional bank holidays on those days. To do so, however, would be liable to be interpreted by international opinion as implying that the Budget on the following day would include some drastic measures of a monetary kind; and, if this impression once took root, the impact on sterling in other exchange markets, which would remain open even though the market in London was closed, could be very dangerous. On balance, therefore, it had been judged right to allow normal banking business to be resumed. The London gold market, however, would remain closed for a further two weeks since, although this would involve us in some loss of foreign exchange earnings, it should do much to restore stability to transactions in gold and should therefore reinforce the new gold policy which the international conference had endorsed.

In discussion some doubt was expressed whether a dual price system for gold could be expected to endure for very long. It was agreed that further pressure on gold might develop quite rapidly and that in those circumstances our own interests would be best served if the United States authorities moved towards a policy of demonetisation. This, however, would have major implications in terms of the political alignment of the world Powers; and the Cabinet should therefore take an early opportunity to consider how our own external policy might be affected, particularly as regards our relationship with the United States and with Europe respectively. It would be important to try to establish how far the events of recent months, which had brought the international monetary structure to the verge of collapse, had resulted from deliberate action to this end by the French Government and how both the French and German Governments were likely to react in the weeks
ahead to the new situation which would develop as a result of the introduction of a dual price gold system. Meanwhile it would remain essential that both the United States and we ourselves should adopt domestic policies which would put the economy and the balance of payments of both countries on a more stable basis, albeit without provoking deflation on a scale which, particularly as regards the United States, might precipitate a contraction in international trade. In our case this consideration underlined the importance of the forthcoming Budget.

The Cabinet -

Took note that the Prime Minister would arrange for further study to be given to-

(a) the political implications of recent developments in the international monetary situation;

(b) the action which might be required if we were compelled in the near future either to block the sterling balances or to allow the exchange rate for sterling to float.

Cabinet Office, S.W.1.

18th March, 1968
THE PRIME MINISTER informed the Cabinet of developments in the international monetary situation since the French representative at the recent meeting of central bankers in Basle had disclosed the intention of the French Government to devalue the franc. The Federal German Government had subsequently announced their intention to adjust their turnover taxes so as to increase the tax on exports and reduce the tax on imports by 4 per cent in each case. The Germans claimed that this was equivalent to a 4 per cent revaluation of the Deutschmark (DM) in visible trade. Subsequently a meeting of the Group of Ten had been called in Bonn and was still in session. Concerted pressure by the United Kingdom and most other Governments on the Federal German Government to increase the extent of their "revaluation" had so far proved unsuccessful. The latest position was that the Federal German Government had offered, in addition, to impose a 100 per cent reserve requirement in respect of foreign deposits held by German banks. The French Finance Minister had indicated that if his Government devalued the franc it would be by 11.11 per cent and it seemed highly probable that a devaluation to this extent would be announced by the French Government sometime on 23 November. The communique from the Group of Ten in Bonn was expected early that afternoon and it was hoped that it would announce a sufficient package of measures - by surplus and deficit countries alike - to stabilise the monetary position at least for some time.

The British Government would be announcing its own package of measures immediately after the Bonn communique. The measures proposed had been considered by the small group of Ministers which had been established under his chairmanship, after the gold crisis last March, to keep the economic and monetary situation under review and make contingency plans as necessary. The proposed measures would in any case have been required, at least in part, to deal with the continuing excess of home demand and of imports over the levels forecast at the time of the Budget. The present international monetary crisis made them easier to explain to public opinion and urgently necessary - both to make good the adverse consequences for our balance of payments of the franc devaluation and to help, with the other measures to be taken by other countries, to restore international confidence.
The proposed measures were, first, a further tightening of credit by banks and other financial institutions. The effect would be equivalent to a reduction of bank credit from 104 per cent of the November, 1967, level to 102 per cent by March, 1969. Secondly, immediate activation of the Customs and Excise regulator in order to put a surcharge of 10 per cent on alcoholic drinks; petrol and other hydrocarbon oils; and on all rates of purchase tax. Thirdly, the introduction of an import deposit scheme requiring importers to deposit with Customs 50 per cent of the value of their imports on importation for a period of six months. This scheme would extend broadly to all imports except food, raw materials and fuel, and a limited range of goods imported mainly from developing countries. The Parliamentary Committee had considered whether some goods - particularly cars and consumer durables - should be excluded from the scope of the regulator but had concluded that they should not, on the advice of the Chancellor of the Exchequer and in view of the latter's undertaking that he would be prepared to review the effect on these particular industries of the current hire purchase restrictions in January or February next. The effect of the regulator would be to add about one point to the cost of living index. The Minister of Power might consider whether the resultant increase of 4d, on a gallon of petrol could be offset by withdrawal of all or part of the present surcharge of three-quarters of a penny a gallon. The import deposit scheme was an entirely new departure, and consequently its effects could not be gauged with any certainty. But it would of course greatly increase the credit squeeze: if its effects on industrial liquidity became too severe it would be possible to ease the restrictions on bank credit.

It was proposed to announce these measures as soon as the Bonn communique, reporting the outcome of the meeting of the Group of Ten, was issued. The precise timing was still uncertain but would almost certainly be that day. The Chancellor of the Exchequer would not inform the Group of Ten about the import deposit scheme until the end of the meeting, and there must therefore be some risk that the Group of Ten would then seek to reopen their discussions and the terms and timing of the communique. If the Bonn communique were issued that day but the Chancellor had not returned (the Prime Minister) would probably make the statement to the House. But the Parliamentary Committee had firmly taken the view that the British measures should not be announced in advance of the Bonn communique. He apologised for the very short notice at which these major issues had been put to them for decision but in view of the exceptional degree of security required the planning had necessarily to be restricted to a very small group of those Ministers directly involved. He invited approval for the announcement of the measures which he had outlined as soon as the Bonn communique had been issued.

In discussion, the following points were made -

(a) It was argued that the level of domestic demand and imports in recent months justified the introduction of the import deposit scheme and the intensified squeeze on credit, but not the use of the regulator, which had originally been considered as an
alternative to the tighter hire purchase regulations which had recently been introduced. The latest economic forecast showed only a very small further expected increase in the level of domestic demand over the next 12 months in the absence of new measures. The use now of the regulator could be justified only as a measure to offset the deterioration in our balance of payments consequent on devaluation of the franc and in order to bolster international confidence. On the other hand, it was argued that the measures proposed were probably insufficient to deflate domestic demand to the level required to get the economy back on to the course charted at the time of the Budget: even if there had been no international monetary disturbance, it was doubtful whether the measures proposed were adequate to provide the balance of payments surplus which we urgently required and had been aiming for. Moreover, there had been a very substantial fall in the seasonally adjusted unemployment figures and a rise in those for unfilled vacancies over the last three months. There were other economic indicators which pointed to a gathering momentum in the rate of growth of the economy, stimulated in large part by a high level of domestic demand. In publicly presenting the measures now proposed it would, in any event, be necessary to relate them to the economic situation at home as well as abroad.

(b) Action to stem the capital outflow to the rest of the Sterling Area should have been included in the measures. It was pointed out that, whereas only a fraction of a reduction in internal demand was reflected in reduced imports, the whole of the effect of any restriction on capital was reflected in full in our balance of payments. On the other hand, it was pointed out that if we stopped the capital outflow to, say, Australia, the latter would no longer be bound by the Basle Agreement, on which the future of sterling depended. However, the Steering Committee on Economic Policy would shortly be reviewing economic strategy as a whole and in this context the problem of capital outflows would be examined.

(c) The exclusion of food and feeding stuffs from the scope of the import deposit scheme was mistaken and would cause the Government considerable embarrassment. We had been seeking for some time to restrict imports of cheese in order to ease the position for our dairy farmers and in the interests of increased import substitution it was highly desirable to extend the import deposit scheme to cover a wide range of agricultural products. On the other hand, it was pointed out that the purpose of the import deposit scheme was not to give additional direct protection to individual industries; and if this became the obvious purpose it would greatly increase the risk of retaliation and of similar measures by the United States Administration. Moreover, the application of the import deposit scheme to food and feeding stuffs would have a substantial effect on the cost of food and therefore the cost of living. Nevertheless, if the British market suffered from increased imports of dumped or subsidised European agricultural produce, the Government should consider whether countervailing measures were needed. The present scope of the import deposit scheme could not be extended after its introduction because any such extension would lead to increased speculative and anticipatory imports of commodities which still remained outside its scope.
(d) It was suggested that the announcement of the measures should indicate firmly that there was no justification for any increase in the price of goods already in the shops as a result of the introduction of the import deposit scheme. On the other hand, it was argued that any statement to this effect would encourage the public to buy imported goods as swiftly as possible in order to avoid the forthcoming increases in prices. There was general agreement that public presentation of this aspect of the scheme should be urgently considered.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed the proposed measures to be taken which he had outlined. These measures would be announced, if possible by the Chancellor of the Exchequer to the House of Commons that afternoon, as soon as the communique from the Group of Ten meeting had been issued. He would, however, inform the Chancellor of the Cabinet's view that it seemed desirable for him to remain in Bonn until the end of the conference and until agreement on the communique had been reached. If this resulted in delaying the Chancellor's return until after the House had adjourned, he would discuss with the Chancellor the most appropriate method of issuing a statement of the British measures. The Steering Committee on Economic Policy would shortly be considering economic strategy as a whole and the problem of capital outflows would be examined in this context. The Chief Secretary, Treasury, should arrange, in consultation with the First Secretary of State, for officials from their Departments and from the Board of Trade to advise urgently on presentation of the effect on prices of consumer goods of the introduction of the import deposit scheme. Ministers should seek to avoid discussing publicly the present monetary situation and the British measures before they had briefing material which was being prepared by the Treasury. If, however, discussion of these topics could not be avoided before official briefing was available, the Ministers concerned should clear the line they proposed to take with the Chief Secretary, Treasury, and the Paymaster General.

The Cabinet -

(1) Approved the economic measures which the Prime Minister had outlined to them.

(2) Took note, with approval, of the summing up of their discussion by the Prime Minister.

(3) Invited the Minister of Power to examine urgently the possibility of withdrawing the present Suez surcharge so as to offset, to some extent, the increase in the price of petrol which would result from the 10 per cent surcharge applied by the regulator.

(4) Invited the Chief Secretary, Treasury, in consultation with the First Secretary of State, to make arrangements for officials to advise urgently on public presentation of the effect on prices of consumer goods of the introduction of the import deposit scheme.

Cabinet Office, S.W.1,
22nd November, 1968
THE CHANCELLOR OF THE EXCHEQUER said that in
the previous week the international monetary system had been
subjected to heavy strains. Conditions in the foreign exchange
markets were still uncertain though the reaction in the last
twenty-four hours had been rather better than might have been
expected. He was most grateful to his colleagues for their
readiness to endorse in his absence the domestic economic
measures which he had announced on 22nd November without
which the pressure on sterling might have been very severe.
In the light of the discussions in the Group of Ten at Bonn the
French Government's decision to maintain the external value
of the franc was a surprising one. The French Finance
Minister had reserved his Government's position at the
conference; and there was no question of the $2 billion inter­
national credit being tied to a devaluation of the franc, which
the American and German Governments had wanted to avoid.
Nevertheless the conference had spent a good deal of time
discussing the precise amount by which the franc could be
devalued without unduly disturbing the international monetary
situation; and the view put forward by the Managing Director
of the International Monetary Fund that a devaluation of
11.11 per cent would be tolerable had been generally accepted.
We would have liked the Germans to revalue the mark, though
it must be recognised that this would have brought great profit
to the speculators who had caused the crisis. When it became
clear that they were not prepared to revalue we had pressed them
hard, though unsuccessfully, to make further changes in their
border taxes. The final outcome would have a mixed effect
on sterling. A devaluation of the franc of around 10 per cent
would have cost us about £80 million on the balance of payments
which we should not now have to meet; but to the extent that
doubts remained about the stability of the current parities
sterling would still be subject to pressure. It was therefore
very much to our interest that the decisions taken by the French
and German Governments in the previous week should be
maintained. In the longer term it would be desirable to import
greater flexibility into the international monetary system. It
was, however, hard to see how an international conference could
be arranged to consider long-term monetary problems until
the new United States Administration was installed; and a
British initiative to this end might well be counter­productive.
He intended, however, to consult closely on these matters with
the new Secretary to the United States Treasury when he was
appointed.
The following points were made in discussion -

(a) The German Government had been warned through their Ambassador in London that if as a result of their failure to revalue the mark the Bonn conference failed and we were forced to allow sterling to float, we should not be able to meet the resulting increase in the sterling cost of maintaining troops in Germany. It must however be recognised that a revaluation of the mark would have led to a similar increase and it was important that the line we took with the German Government in monetary matters should be consistent with our attitude in NATO. Similarly we should consider whether there was scope for closer co-operation with Europe on monetary matters to complement our efforts to strengthen co-operation on defence and foreign policy.

(b) The international monetary situation was likely to remain uncertain for several months. It might be useful to arrange regular meetings of the Group of Ten to supplement the monthly meetings of the central bankers at Basle. The timing and presentation of any such meetings would, however, need to be considered carefully in order to avoid provoking further speculation in the foreign exchange markets.

The Cabinet -

Took note of the statement by the Chancellor of the Exchequer.
CAB 128/46

1966
CC (65) 32nd CONCLUSIONS, MINUTE 2
CC (66) 37th CONCLUSIONS,
CC (66) 41st CONCLUSIONS, MINUTE 4
CC (66) 42nd CONCLUSIONS, MINUTE 3
CC (66) 50th CONCLUSIONS.

1967
CC (67) 2nd CONCLUSIONS
CC (67) 25th CONCLUSIONS
CC (67) 50th CONCLUSIONS
CC (68) 21st, 22nd, 47th + 48th Conclusions
CC (69)
CAB 128/46

1966

CC (66) 32ND CONCLUSIONS, MINUTE 2
CC (66) 37TH CONCLUSIONS,

CC (66) 41ST CONCLUSIONS, MINUTE 4
CC (66) 42ND CONCLUSIONS, MINUTE 3

CC (66) 50TH CONCLUSIONS.

1967

CC (67) 2ND CONCLUSIONS
CC (67) 25TH CONCLUSIONS

CC (67) 41ST 22ND 47TH 48TH CONCLUSIONS
CC (69)
<table>
<thead>
<tr>
<th>Year</th>
<th>CC(66) 32nd Conclusions, Minute 2</th>
<th>Reform of the House of Lords (CA)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>CC(66) 37th Conclusions</td>
<td>The Economic Situation (CA)</td>
</tr>
<tr>
<td></td>
<td>CC(66) 41st Conclusions, Minute 4</td>
<td>The Prime Minister's Visit to Washington (CA)</td>
</tr>
<tr>
<td></td>
<td>CC(66) 42nd Conclusions, Minute 3</td>
<td>Economic Situation (CA)</td>
</tr>
<tr>
<td></td>
<td>CC(66) 50th Conclusions</td>
<td>Rhodesia: The Use of Force (MCR)</td>
</tr>
</tbody>
</table>
REFORM OF THE HOUSE OF LORDS

The Cabinet considered a memorandum by the Lord Chancellor and the Lord Privy Seal (C(66) 87) on the reform of the House of Lords.

THE LORD CHANCELLOR recalled that the Government had undertaken in their Election Manifesto to introduce legislation to safeguard measures approved by the House of Commons from delay or defeat in the House of Lords. It would be important to consider the content and timing of this legislation early in the lifetime of the Parliament; and a forthcoming debate in the House of Lords on a Motion by Lord Alport for the appointment of a Select Committee to consider how, by changes in its procedures or by other means within its powers, the House of Lords could make a more substantial contribution to the efficient working of Parliamentary government, would afford an occasion for a debate which might range over wider issues on which it was desirable that the Government spokesman in the House of Lords should be aware of the Cabinet's views.

The major issues were those of the powers of the House of Lords and its composition. The House of Lords had power, not subject to the Parliament Act, to decline to approve an Order or Statutory Instrument subject to affirmative procedure, or to disapprove one subject to negative procedure, and power under the Parliament Act to delay the passage of Bills for one Session. A Bill rejected by the House of Lords could be passed under the Act if the identical Bill was reintroduced in the following Session, but at least a year must elapse between the Second Reading of the first Bill in the House of Commons and the passing by that House of the Second Bill. These powers could be used to frustrate Government policy in the latter years of a Parliament; and the Government's freedom to manage public business might also be jeopardised as a result of the absence of firm rules of procedure and of any means of controlling back-bench and cross-bench peers. It was proposed that a Bill should be introduced in the 1967-68 Session to provide that delegated legislation should be subject to affirmative or negative procedure only in the House of Commons; that a Government Bill might on a resolution of the House of Commons receive Royal Assent three months after it had been sent to the House of Lords, with such Lords' amendments as the House of Commons might accept; that Bills introduced in the House of Lords should be passed within three months; and that Commons
amendments should not be subject to the agreement of the House of Lords. Once the powers of the House of Lords were reduced, the problem of its composition became easier. A possible course would be to adopt a system of voting writs which would enable any peer to attend and speak, but only those holding voting writs to vote. The writs might be issued to all peers of first creation and life peers, and possibly to some outstanding hereditary peers. This would give the Government a good chance of securing a majority in divisions in normal circumstances, though not in all divisions. There were, however, alternative possibilities which should be examined. It would be convenient to remit to a Cabinet Committee for consideration the problems of the composition of the House and related matters, including how far proposals could be implemented by amendments in the Standing Orders of the House and the question of the timing of legislation.

In discussion it was generally agreed that legislation should be introduced to deprive the House of Lords of its power to frustrate subordinate legislation and to delay Bills. As to its timing, it was pointed out that there was a good prospect that the Opposition in the House of Lords would co-operate in securing the passage of the Government Bills required before the Summer Recess, and it was not certain that the House would reject or substantially amend the Iron and Steel Bill and the Land Commission Bill; but this co-operation might be prejudiced if it were known that the Government intended to introduce legislation to curtail the powers of the House in the 1967-68 Session. If the House of Lords attempted to impede the passage of the Iron and Steel or Land Commission Bills, the Government should immediately announce its intention to legislate to reduce their powers; if they did not, however, it was arguable that it would not be necessary to legislate in the 1967-68 Session, when there would be considerable pressure on the Parliamentary timetable. On the other hand, it might be desirable to legislate early in the Parliament as a means of demonstrating the Government's intention to carry through radical reforms and of avoiding the possibility of embarrassment if, towards the end of the Parliament, the Government found it necessary to introduce urgent and unpopular economic measures which the House of Lords might see advantage in rejecting. A Cabinet Committee should therefore consider the details of legislation on the powers of the House of Lords and arrange for a Bill to be made ready. The timing of its introduction should be considered in the light of the progress made with the current Session's legislation, and in the meantime no indication of the Government's intentions should be given.

On the question of the composition of the House of Lords, it was suggested that consideration of the composition of the House could not be divorced from that of its powers. The Labour Party had adhered in principle to a bi-cameral system of government, and it was arguable that, if a Second Chamber was to be retained, it could not continue to be based on hereditary membership, but should be reformed on a basis...
appropriate to its modern functions. On the other hand, it was argued that, once the powers of the House of Lords were curtailed, the controversial question of its composition would become less important, and on balance it seemed preferable not to reopen discussion of it.

The Cabinet then considered the attitude which the Government spokesman should adopt in the debate on Lord Alport's Motion. It was suggested that a Select Committee, which might be composed of four Labour, four Conservative, one Liberal and three cross-bench peers, might well have a majority of members interested in reform and might be persuaded to make recommendations for the voluntary reform of the House of Lords, not only in matters of procedure, but also of composition and even of powers. It was arguable that it was within the competence of the House of Lords to determine its own composition by Resolution, and if it was willing to reform itself on these points it would be embarrassing for the Government to appear to be opposed to its doing so. On the other hand, while there was no objection to a Select Committee to consider procedure, constitutional changes going beyond this were properly a matter for both Houses of Parliament.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that legislation should be introduced at a convenient juncture to curtail the powers of the House of Lords on the lines proposed in C(66) 87. They were disposed to think that the legislation should be undertaken in the 1967-68 Session, but further consideration should be given to its timing in the light of the manner in which the House of Lords dealt with important Government measures in the present Session. In the meantime no indication should be given that the Government were contemplating the introduction of a Bill in the 1967-68 Session. He would arrange for the appointment of a Committee of Ministers to draw up detailed proposals for a Bill, and to arrange for it to be held in readiness. The Cabinet considered, on balance, that the controversial question of the composition of the House of Lords should not be reopened in this connection. In the forthcoming debate on Lord Alport's Motion, the Government spokesman should offer no objection to the appointment of a Select Committee on Procedure, but, if the question of powers were raised, he should confine himself to a statement of the policy to which the Government were already pledged of introducing legislation to ensure that measures approved by the House of Commons were not delayed or defeated in the House of Lords. He should, if necessary, indicate the Government's view that the composition of the House of Lords was a constitutional matter which should not be dealt with by that House alone.
The Cabinet -

(1) Agreed that legislation should be introduced at a convenient time to abolish the powers of the House of Lords to prevent or delay legislation but not to alter the composition of the House.

(2) Took note that the Prime Minister would arrange for the constitution of a Committee of Ministers to consider the details of the legislation.

(3) Invited the Lord Privy Seal to be guided, in replying to the debate on Lord Alport's Motion, by the Prime Minister's summing up of their discussion.

(4) Agreed to consider the timing of the introduction of the proposed Bill in the light of the progress made with Government legislation in the current Session.

Cabinet Office, S. W. 1.

28th June, 1966
CABINET

CONFIDENTIAL ANNEX

CC(66) 37th Conclusions

Tuesday, 19th July, 1966 at 5.00 p.m.

THE ECONOMIC SITUATION
(Previous Reference; CC(66) 36th Conclusions, Minute 3)

The Cabinet considered Notes by the Secretary of the Cabinet (C(66) 106, 107, 108, 109, 110, 111, 112, 113, 114 and 115), covering memoranda, prepared by officials, on measures which might be taken to deal with the economic situation.

The Prime Minister said that the situation with which the Government were faced was due to the pressure on sterling which had developed over the past ten days. This was largely irrational; and a number of factors had contributed to it. The seamen's strike had had an adverse effect on confidence in sterling; and this had been increased when the losses in the reserves for the month of June, which were largely due to the strike, had been published. The intensification of the war in Vietnam had also affected confidence; and reports following the visit to London by the French Prime Minister and Foreign Minister had suggested that in their view the United Kingdom Government should consider devaluation. There had been a general breakdown of confidence in sterling; and the rate of deterioration was now such that a statement of the Government's policy must be made without delay and could not wait until after his forthcoming visit to Washington. The papers now before the Cabinet had been prepared by officials in the light of the Cabinet's discussion on 14th July and covered the various measures which were open to the Government. These included a sharp reduction in private consumption through the use of hire purchase restrictions and the economic regulator; restrictions on construction both in the private and public sectors; and reductions in investment, particularly by the nationalised industries. They did not suggest significant reductions in current Government expenditure; and the priority programmes of capital expenditure for housing, hospitals and schools would be largely exempt. The measures which were selected and the rate at which they were applied would affect the size and severity of the disinflationary impetus. The memoranda also covered reductions in overseas expenditure, both governmental and private; and they included studies of import quotas and export incentives as well as of a possible standstill on prices and incomes.
It had been suggested that devaluation might be an alternative to disinflation; but, even if sterling were devalued, it would remain no less essential to free resources for exports and for import substitution. It could be argued that the disinflationary measures should be combined with immediate devaluation in order to produce the necessary shift in the economy and to provide a direct incentive to exports. But there were serious objections to devaluation, certainly at this stage, whether it took the form of a change to a new fixed rate or the adoption of a floating rate. In the first case other countries might well follow our example and we should very shortly find ourselves in the same relative position, having meanwhile incurred the odium of dislocating world trade. Devaluation to a fixed rate would also shake the confidence of the holders of sterling balances; and, if there were a general move to withdraw these balances, a further devaluation might well be inevitable within a short period. The adoption of a floating rate might be less open to objection, particularly if this step was taken when sterling was in a strong position and the rate would therefore tend to rise rather than to fall. The adoption of a floating rate could, however, encourage other countries to act similarly when faced with economic difficulties; and this could engender a condition of uncertainty which would affect world trade. The need for stability of export prices had been regarded in the past as a decisive argument against the adoption of a floating rate for sterling; and this argument still had force today. It did not follow that devaluation need be ruled out for all time; if the disinflationary measures which the Government might now adopt proved ineffective, there might be no alternative but to devalue. If, however, these measures proved reasonably effective, the position might be expected to improve considerably; and the situation could then be reviewed again after his forthcoming visit to Washington. The United States Government would probably be strongly opposed to a unilateral devaluation by the United Kingdom, particularly before their own elections in November, since they might then be forced to devalue the dollar and this would compel them to increase the price of gold, to which there were strong emotional objections in the United States. There was some evidence, however, that, owing to the obstruction of the European countries, particularly France, to current proposals for increasing world liquidity, the United States Government were now prepared to consider new measures for this purpose, possibly including a link between sterling and the dollar and the adoption of a floating rate for the two currencies. This concept had many attractions, since it would constitute a joint operation with the United States, which could be launched from strength rather than weakness.

If the choice lay simply between devaluation and the maintenance of full employment, he would prefer to devalue. In fact, however, it did not appear that we had reached the point at which devaluation was inevitable. Moreover, while the studies by officials suggested that the disinflationary measures now proposed would lead to some increase in unemployment, this could provide a positive means of correcting the balance of
the economy and directing the national effort into economically more productive and socially more valuable channels. Moreover, if these measures led to a higher level of unemployment than had been estimated, it would be open to the Government to correct this tendency by measures of refutation. Finally, public opinion would welcome firm action; and the measures now adopted must carry conviction and demonstrate the Government's determination to deal with the situation. They should include a substantial reduction in internal demand, which must be balanced by a reduction of expenditure overseas, both governmental and private. In order to be credible the measures should include action to stabilise prices and incomes.

The Cabinet should now discuss the Government's basic economic strategy and should then consider in more detail the memoranda before them and the various disinflationary measures which might be adopted. All measures, including devaluation, would be open to examination; but it was of the utmost importance that complete secrecy about the course of the discussion should be maintained.

In discussion it was urged that a change in the Government's fundamental economic policies was needed. The proposals before the Cabinet contained no new features; and this would become apparent in any public statement based upon it. By contrast devaluation would add a new dimension to economic policy, which would give the Government a wider range of choice of objectives. The measures required to support a floating rate for sterling would not be, in kind, different from those needed to defend the present rate, the essential requirements being that real standards of living should be reduced, that prices and incomes should be frozen, and that expenditure overseas should be curtailed. But the measures necessary to defend the present parity would have to be more severely deflationary than those required to make the best use of the additional scope afforded by a devaluation. If devaluation carried an inherent risk of further devaluations, the same was true of the alternative policy of deflation. In recent years there had been a series of deflationary measures; and sooner or later it had always been necessary to take further action of the same kind. Given devaluation, however, the risk of a succession of similar moves was much less; and the objective of devaluation by means of a floating rate would be to restore the strength and the parity of the pound once the accompanying deflationary measures had overcome the immediate difficulties. The combination of devaluation with relatively moderate deflationary measures should permit economic recovery within a year, whereas two years or more would be required for a policy of deflation alone to achieve its effect. Moreover, a dramatic decision to devalue sterling would have a greater psychological effect than a succession of disinflationary measures in awakening public opinion both to the gravity of the present situation and to its probable results if no effective remedial action was taken. It was arguable that we should not resort to devaluation while the economy was weak; but the opportunity to devalue when the economy was strong would never
in fact materialise. It was also arguable that the Government should have devalued sterling on taking office in October, 1964; but, that occasion having been missed, the opportunity of the present crisis should be taken to devalue to a floating rate and simultaneously to introduce the necessary measures of disinflation.

In support of these arguments it was further urged that the parity of 2.80 dollars to the pound, which the Government, on assuming office, had undertaken to defend, had proved to be incompatible with their two major objectives of improving the rate of growth of the economy and of shifting resources from the private to the public sector. The measures now before the Cabinet were not only not new but offered no guarantee that reflation after 1967 could be undertaken from any stronger position than that now prevailing. Moreover, to embark upon a deflationary policy now would be likely to prove embarrassing politically, especially if the reflation envisaged in 1968 were to produce, as on past experience it might, a renewed sterling crisis at a politically inconvenient time. If the Government recognised in the Prime Minister's statement on the following day that they had been trying to maintain an unreal parity and an unrealistic role in the world - a reduction of £100 million in overseas expenditure was the minimum required to demonstrate such recognition - this would have the maximum impact. It had been argued that a decision on devaluation should be delayed until after the Prime Minister's visit to Washington; but the United States Government were not likely to give us more than temporary help before their elections in November; and even this would be likely to involve us still more deeply in long-term commitments in the Far East and elsewhere and to inhibit the development of the new economic strategy for which devaluation would open the way. The worst of all courses would be to adopt a series of stringent disinflationary measures now and then to be compelled to devalue sterling a few months later.

The experience of the last two years or more suggested that it was impossible to combine a policy of full employment with a healthy balance of payments at the present parity. Theoretically it would be possible to maintain that parity by a combination of quantitative restrictions and export subsidies; but these merely constituted a disguised devaluation, which might well provoke international retaliation. The choice, therefore, lay between devaluation and true deflation; and in the latter case the deflation would probably have to be considerably more severe than would be necessary if it were accompanied by devaluation. But deflation on this scale would disrupt internal confidence, particularly as regards investment, and would virtually preclude the possibility of any success for the Government's long-term economic policies for removing restrictive practices and promoting growth. An announcement of further deflation on the following day would be a confession that the Government's previous policy had failed; and it would have to be followed by a further admission of the same kind after a relatively short interval.
A fundamental weakness in the Government's present policy was the fact that we were seeking to maintain a position in the world which our economy could not support. This weakness could not be remedied merely by declaring an intention to achieve a modest saving on the Government's overseas expenditure. The only practical course was to abandon a very substantial part of our overseas commitments. Action of this kind, accompanied by devaluation, would free us from our monetary and political obligations to countries who at present sought to exact political support in return for their assistance to sterling. We should also refuse to be bound by international obligations which prevented us from providing export incentives or imposing restrictions on imports when we judged these steps to be necessary.

There was admittedly no easy solution for our present economic problems. Stern measures of disinflation, accompanied by devaluation, would be accepted by the country as demonstrating our independence of purpose and our determination to maintain economic growth. But if the Government did not take this opportunity to devalue and adopt, instead, a series of harsher deflationary measures as evidence of their determination to maintain the parity, devaluation might still be forced on us at a later date but it would then be no longer possible to take political credit for it as a deliberate act of policy, based on a considered economic judgment. We should have to admit that we had tried to maintain the parity and had failed. And this failure would have more than merely economic implications.

On the other hand it was argued that it would be a mistake to devalue the pound or to allow the rate of exchange to float at the present time. The issue could not fairly be presented in terms merely of providing reassurance to foreign bankers at a particular moment of time. The prevailing lack of confidence in the British economy was due to a persisting doubt about our ability to pay our way and to meet our obligations in the longer term, as illustrated by the substantial deterioration in the forecasts of our balance of payments prospects as compared with those on which the Budget had been based in April. For this continuing imbalance devaluation would provide no simple or rapid remedy.

Moreover, its effects, both economic and political, were unpredictable. The result might well be so greatly to increase the reluctance to hold sterling, even on the part of those who had hitherto continued to do so, that we should quickly be forced to permit the exchange rate to fall to a very damaging extent; and the initial devaluation, if to a new fixed rate, might then have to be followed by further devaluations. Alternatively, if we allowed sterling to float and to find its own level, we could not command the reserves to prevent it from sinking to an unacceptably low rate. Nor could it be argued in support of devaluation that sterling was over-valued at the present parity. The
increase in exports of 6 per cent in volume and 9 per cent in value in the first five months of 1966, compared with the corresponding period of 1965, indicated that we were not failing to be competitive in world markets in terms of our prices. The deterioration of the balance of visible trade in June was immediately attributable to the effects of the seamen’s strike; but basically our balance of payments difficulties were due to an inflow of imports which was generated by the excessive pressure of domestic demand. Despite the serious objections to import restrictions which were summarised in the memoranda before the Cabinet, it might be desirable to consider later, but not at present, the introduction of a system of selective import controls.

Moreover, devaluation would not remove the need for disinflationary measures. That need would be as great, or even greater, if we devalued, since, unless capacity for export production were increased by the restraint of domestic demand, we should lose the benefit of the competitive advantage which devaluation should afford our exports. The measures before the Cabinet would reduce demand by something of the order of £500 million or more. But this was marginal in comparison with the gross domestic product (GDP), now running at over £30,000 million; and it could hardly be argued, therefore, that the effects of these measures on the domestic economy would be disastrous. On the other hand they should be sufficient to bring about the marginal shift of resources which was all that was required, without leading to an unacceptable level of unemployment. Even if, contrary to expectation, they proved to have more severe effects than were either needed or intended, measures such as the regulator or hire purchase restrictions could be reversed at short notice.

It had been argued that devaluation would represent a new strategy, particularly in the sense of a release from the economic constraints which at present inhibited the Government in the pursuit of their political objectives. But experience after the last devaluation in 1949 did not support the thesis that devaluation was likely to make it easier for us to break out of the cycle of "stop and go" which had characterised the economy since the end of the war in 1945. Devaluation would contribute nothing to the overriding requirement of our longer-term economic policy, which was the improvement of productivity. It was correspondingly important, therefore, that any combination of disinflationary measures should include action which would contribute to the positive aims of this policy; and it might be necessary to contemplate more drastic measures to divert man-power and resources from inessential and secondary industries to industries which could make a substantial contribution to exports.
Devaluation would increase both the cost and the difficulty of meeting our obligations in foreign currencies. Moreover, to devalue, or to let the exchange rate float, would be tantamount to defaulting on those who had continued to hold sterling in the faith, in which they had been encouraged by successive Government statements, that the exchange parity would be maintained. It would be dishonourable for the United Kingdom Government to take this course unless it was forced on them; and foreign opinion would not be ready to accept the inevitability of a devaluation unless the Government had shown a readiness to face their responsibilities and to take all possible action to avoid such a step. That point had not yet been reached.

The Government must also weigh the political consequences of devaluation for our relationships with other countries. These consequences were incalculable; but they might be gravely damaging to our interests. Moreover, in considering the measures necessary to avoid devaluation it would be unwise to attach too much importance to reductions in Government expenditure overseas. This expenditure constituted only some 12 per cent of total United Kingdom expenditure overseas, which would therefore be reduced by only 2 per cent if the reductions now proposed were approved. But these reductions, once made, would be irrevocable, and the surrender of commitments which they would imply would be liable to involve us in great difficulties which would be not merely political but economic as well. Foreign opinion would be more impressed by resolute domestic measures than by drastic reductions in overseas expenditure which weakened our influence abroad. But it would also be influenced by the character of the disinflationary measures which were introduced; and from this point of view it was possible to maintain that the proposals before the Cabinet laid insufficient emphasis on the need to reduce unproductive expenditure, including unproductive Government expenditure, in the United Kingdom. It might be thought preferable to lay greater emphasis on the need to encourage the sectors of the economy concerned with economic growth and to make reductions, if necessary, in expenditure on e.g. social benefits, health and housing until our rate of economic growth was adequate to support the burden of the social expenditure which we wished to undertake. Moreover, the increase in the housing programme, whether by public or by private enterprise, logically required further substantial investment in the public utility industries in order to provide the necessary services for new houses. Reductions in capital expenditure on e.g. electricity supply and
distribution, should therefore be considered in the context of the demand for these services generated by other investment. On the other hand reductions in social expenditure would not only represent the negation of policies to which the Government were committed but would be widely regarded as incompatible with a standstill in respect of increases in prices and wages.

But the overriding political consideration was the fact that the Government's supporters and the country as a whole were looking to the Government to provide firm and united leadership in the situation which faced them; and the action taken must be an adequate response to this challenge. In particular the Government would be expected to adopt a firm attitude towards the leaders of both sides of industry whose performance e.g. as regards improvement in productivity, had not matched their professions. The country would be prepared to support a Government which showed a clear determination to deal with the problems confronting them, regardless of sectional interests. Meanwhile, although even disinflationary measures as severe as those now under consideration might be insufficient to restore confidence in sterling and we might therefore be forced to consider an alteration in the parity at a later date, it would none the less be premature to take an insufficiently considered decision on this vital question before the Prime Minister's forthcoming visit to Washington.
THE PRIME MINISTER, summing up the discussion, said that it was important to distinguish clearly between problems of reality and problems of confidence. The realities of the situation were that our export achievements were good; our exports were rising ahead of target but our effort was being impeded by shortages of labour which could only be solved by redeployment. On the other side of the account, however, our position was being prejudiced by excessive demand for imports; and sooner or later we might have to recognise that a solution could only be found by introducing selective import controls.

As regards the problem of confidence, in so far as it had a rational origin this was to be found in the increase in world prices, which itself resulted from the fact that the war in Vietnam had now created a situation not unlike that prevailing at the time of the Korean war in 1951. The Vietnam conflict had also exacerbated the adverse balance of payments of the United States; and their counter-measures, by reducing the world supply of dollars, had increased our own difficulties. Moreover these special factors were operating in the wider context of a world shortage of liquidity; and all attempts to find a remedy for this longer-term problem had so far failed in the face of opposition from European interests, particularly the French Government.

Since sterling was a reserve currency, we inevitably found ourselves exposed to the full brunt of the resulting pressures; and sterling, rather than the dollar, had to withstand the initial attack which we had been experiencing during the last 18 months and were now confronting in its full intensity. At some point it might be necessary to reconsider our position as the banker of the sterling area. It was clear, however, that the balance of opinion in the Cabinet was opposed to any immediate alteration of the sterling parity; and, although it would be unrealistic to reject devaluation in any circumstances, it was virtually certain that, if the Government took prior decision to devalue sterling, his subsequent visit to Washington in the following week might be largely frustrated in advance by an act which could have a very serious effect on our relations with the United States.

In these circumstances it would be right for him to make on the following day a statement in the House of Commons which would indicate the Government's firm determination to put the economy to rights by means of a programme of disinflationary measures. But if, thereafter, sterling did not make a sufficient recovery and no positive results emerged from his forthcoming discussion with the United States President of the possibilities which he had indicated in his opening statement, it would be necessary to consider the whole situation afresh.
His statement in the House of Commons should be of a nature to give the country the sense of renewed purpose for which it was now calling. At the same time it must make it clear that the policy of the Government was different from that of its predecessors in that, first, there would be no reduction in expenditure on social priorities such as housing, schools and hospitals and, second, while the Government were determined to eliminate the wasteful use of labour by redeploying it in the more productive sectors of the economy, particularly exports, it would also be their purpose to avoid excessive levels of unemployment, both nationally and regionally.

THE FIRST SECRETARY OF STATE indicated that he was not convinced that this policy would suffice and that an immediate devaluation might not be the wiser course. He therefore wished to reserve his position for further consideration.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

THE PRIME MINISTER suggested that the Cabinet should now proceed to an initial discussion of some of the economic measures to be announced in his Parliamentary statement on the following day.

In discussion the following main points were made -

(a) While hire purchase restrictions had some advantages over the use of the regulator, notably that they did not affect the retail price index, their impact on purchasing power was only temporary. The inclusion of the regulator in the measures was therefore essential to establish its credibility in the eyes of overseas opinion. There was a widespread measure of agreement, however, that the regulator should not be applied to the tobacco duty: the evidence suggested that tobacco had reached the limit of taxable capacity and a further increase might reduce consumption to the point where there was no net increase in revenue. Moreover the increase in tobacco duty would raise the retail price index by nearly one point. The increase in purchase tax would raise the index by less than one-fifth of a point and the increase in the duties on alcoholic liquor by about one-third of a point. The increase in the hydrocarbon oil duty would also affect the cost of living ultimately; but the additional duty would be rebated to exporting industry through the export rebate arrangements and could be repaid to public passenger transport operators by arrangements similar to those adopted in the previous year.
(b) It was pointed out that the average downpayment actually paid on motor cars bought on hire purchase was at present 38 per cent. In these circumstances to raise the minimum deposit to 40 per cent might not constitute a very substantial disincentive; and it might be preferable to raise the figure to 50 per cent. On the other hand at a time when the motor car industry was running at 90 per cent of capacity the combination of a 50 per cent minimum deposit and an increase of purchase tax could have serious consequences for employment in the industry.

c) In general it would not be possible to increase direct taxation at this juncture in the light of the difficulty of introducing a new Finance Bill at the present point in the Parliamentary Session. The Cabinet would however, be invited to consider a proposal for a surcharge of 10 per cent on surtax for 1965-66. This proposal, which would yield an additional £26 million, could be given statutory sanction in the following year's Finance Bill. There would be political advantages in such a proposal, although it might be argued that it would bear hardly on some of the younger executives in industry, on whose energy and willingness increases in efficiency depended.

d) There was general agreement with the proposal to extend the control of office building and to lower the limit for the purpose of building licensing.

e) There was general agreement that a limit should be imposed on the tourist travel allowances. Although some members of the Cabinet favoured an allowance of £60, it was pointed out that an allowance of £50 would be higher than the present average level of expenditure (excluding fares). It was suggested that the travel allowance should be fixed at £50 but should be applied to travel within as well as outside the sterling area. The Chancellor of the Exchequer undertook to consider whether the Government had power to impose a travel allowance for travel in the sterling area and whether, if so, such an allowance could technically be administered.

f) There was general agreement that the proposed alterations in arrangements for emigrants' allowances were justifiable.

(g) It was re-emphasised that the level of investment in the electricity and gas supply industries was directly related to the level of housebuilding and that it would therefore be difficult to make major reductions in the investment programmes of these industries if the housebuilding programme was not to be curtailed. It was suggested that the ban on advertising by the electricity and gas Boards should be extended for a further period, although this might have the disadvantage of reducing sales of off-peak storage heaters which helped to spread the load on the electricity supply industry.
THE PRIME MINISTER, summing up this part of the discussion, said that at this stage the Cabinet were expressing initial views and that firm decisions would need to be taken at their next meeting. If the Cabinet decided to introduce hire purchase restrictions at the lower of the levels proposed, to impose the regulator and to make the proposed reductions in public sector investment, the total amount by which demand would be reduced would approach £500 million. The Government could also take credit for the £26 million in respect of the surtax surcharge proposed by the Chancellor of the Exchequer and the £20 million increase in postal tariffs, which had already been approved by the Cabinet and could well be included in his statement on the economic measures. With these additions the total reduction in demand would amount to rather more than £500 million, although to the extent that overseas expenditure (particularly on tourism) was reduced there would be some increase in the level of domestic demand which would need to be offset.

The Cabinet -

Agreed to resume their discussion of the economic situation at a meeting to be held on Wednesday, 20th July, at 9.00 a.m.

Cabinet Office, S. W. 1.

22nd July, 1966
The circulation of this paper has been strictly limited.
It is issued for the personal use of the holder.

TOP SECRET

CABINET

CONFIDENTIAL ANNEX

CC(66) 41st Conclusions, Minute 4

Tuesday, 2nd August, 1966, at 10.00 a.m.

THE PRIME MINISTER informed the Cabinet that during his visit to Washington at the end of the previous week he had held very profitable discussions with the President of the United States, President Johnson. There had been no disposition on the part of the United States authorities to maintain their earlier criticism of our attitude in dissociating ourselves from their bombing of the oil installations at Hanoi and Haiphong and in purporting to attach conditions to the supply of arms to the United States. They had been more interested to discuss the disinflationary economic measures which we had recently taken, measures which had clearly created a favourable impression in Washington and should ensure that henceforward the United States Government would support us in our efforts to rectify the balance of the United Kingdom economy. He had taken advantage of this opportunity to remind President Johnson and his colleagues that, if these measures failed, we might be compelled to take action which would be unwelcome to the United States Government — e.g., the forced liquidation of United Kingdom privately-owned securities in the United States. But he had made it clear that we should be very reluctant to take steps of this kind and should certainly prefer to concert action with the United States Government to face the problems which lay ahead. Not the least of these problems was the question of international liquidity, on which he had impressed on President Johnson and the United States Secretary of the Treasury the importance of collaboration between the United States and the United Kingdom against the possibility that the current multilateral international discussions on possible means of increasing liquidity might prove to be insufficiently rapid or effective.

It was clear that the United States Government would regard a devaluation of sterling as inimical to their interests; and our own decision to avoid this step if possible made it the more likely that we could secure their co-operation in establishing a link between sterling and the dollar which should enable the United States and the United Kingdom Governments to present a united front on the question of international liquidity. There were various ways in which this concept of a link between the two reserve currencies might be given formal expression — e.g., an arrangement whereby United Kingdom-owned assets in the United States might be managed by some joint organisation representative of both Governments. But it would have been premature to attempt, during so brief a visit, to discuss the details of any projects of this kind; and a more fruitful method of developing the concept might be found in a suggestion, which he had mentioned to President Johnson, that we should establish in the United Kingdom an advisory body on the analogy of the...
Dillon Committee in the United States as a means of maintaining contact and exchanging views with the United States authorities on the complex of problems connected with liquidity.

As regards the more specifically political issues which had figured in the discussions President Johnson had appeared to be rather less directly interested than hitherto in the problem of nuclear sharing in relation to the Federal German Republic; and he had shown no particular concern about the reductions which we proposed to make in our own military expenditure overseas. On the other hand there were now good reasons to suppose that the United States Government would make a sustained attempt to ensure that the heavy liability which we should incur in respect of our purchase of the F111 and other United States aircraft would be offset by United States purchases of United Kingdom military equipment. They were about to place a substantial order for ships in the United Kingdom; they had decided to incorporate the Rolls-Royce Spey engine in certain United States aircraft, which should yield 100 million dollars over the period of the order; and their decision that certain United States troops in France should now be transferred to the United Kingdom should provide further relief to our balance of payments.

The United States Government were also keenly interested in the question of aid to the developing countries; and this had shown itself both in their desire to develop, in discussion with ourselves, a more coherent and integrated policy of aid to African countries and in the President's expressed determination to maintain aid in the form of food surpluses under Public Law 480 by maintaining agricultural production in the United States at a level which would ensure the continued availability of such surpluses.

THE CHANCELLOR OF THE EXCHEQUER confirmed that the Prime Minister's discussions with President Johnson had already introduced a new and welcome element of stability in a situation which still held great dangers for sterling. The United States monetary authorities were now giving us all possible assistance in supporting the exchange rate; and, provided that the disinflationary measures which we had recently adopted were put into full effect and maintained without relaxation, we could now hope that we should achieve a surplus on our balance of payments in 1967. But it was essential to reinforce these measures by restoring international confidence in the credibility of the Government's policies; and from this point of view the Government should do all they could to discourage the continuing speculation about a possible devaluation of sterling, which, if it were maintained, would be liable to offset all the benefits which we might otherwise expect to derive from our disinflationary measures. On the separate, but related, topic of international liquidity we must prepare ourselves for a situation in which, if the war in Vietnam were brought to an end, the United States themselves might move into surplus on their balance of payments relatively rapidly; and the problem of the shortage of international capital would then become acute. The United States authorities were probably too optimistic in assuming that the current international discussions on liquidity would suffice to avert this danger.
in good time. There was as yet no sufficient reason to suppose that the European interests concerned would co-operate effectively to this end; and France, in particular, seemed determined to maintain her speculative pressure on sterling. It was all the more important, therefore, that we should concert action with the United States to avoid these dangers. Even so, we could not afford to relax our own efforts to reduce the strain on our balance of payments; and it would be particularly important to curtail our military expenditure overseas as rapidly and as effectively as possible.

In further discussion it was suggested that after the new measures of disinflation, particularly the standstill on wages and prices, had been in force for a period of not less than six months, it might be possible to begin to consider adopting reflationary measures. But these would require very careful consideration as regards both their form and the timing of their introduction. Meanwhile, the restoration of confidence in sterling would inevitably take some time; and we could not afford to relax any of our efforts to this end. It was satisfactory that the reductions in our defence expenditure abroad which the Cabinet had approved in principle offered a prospect that our net military account overseas should be in balance in two years' time. But the realisation of this prospect depended on our achieving in full each one of the economies in question; and from this point of view it would be particularly important that we should demonstrate our determination to withdraw troops from Germany if the Federal German Government were unable or unwilling to meet our demand for complete repayment of the foreign exchange expenditure involved. The Ministers concerned should give early consideration to the overt measures which might now be taken for this purpose, including the initiation of the necessary consultations in the North Atlantic Treaty Organisation and Western European Union.

The Cabinet

(1) Took note, with approval, of the Prime Minister's report on his recent visit to Washington.

(2) Took note that the Prime Minister would arrange for an early meeting of the Defence and Oversea Policy Committee to consider proposals for demonstrating our determination to withdraw troops from Germany, if necessary.
CABINET

CONFIDENTIAL ANNEX

CC(66) 42nd Conclusions, Minute 3

Thursday, 4th August, 1966, at 10.00 a.m.

THE PRIME MINISTER informed the Cabinet that, together with the First Secretary of State and the Chancellor of the Exchequer, he had met a representative gathering of bankers on the previous evening in order to discuss the probable impact of the disinflationary measures which the Government had recently introduced. The discussion had been profitable and constructive; and it was satisfactory that those attending the meeting had undertaken, regardless of individual political convictions, to support the Government's endeavours to rectify the balance of the economy and to protect sterling. They had expressed their confidence that, provided that the Government maintained a united political front and succeeded in sustaining the credibility of their programmes, the recent measures should achieve their purpose; and it had been notable that, with one possible exception, they had been unanimous in rejecting a devaluation of sterling.

THE CHANCELLOR OF THE EXCHEQUER said that it was now essential that the Cabinet should dismiss devaluation from consideration and should devote themselves to a single-minded and determined attempt to ensure the success of the recent disinflationary measures, which had been based on the assumption that the existing parity of sterling would be maintained. It would be particularly important to refrain from any public statements about devaluation, since any reference to the topic, however carefully expressed, would merely excite fresh speculation about the Government's intentions.

In discussion there was general support for this view. At the same time the Government should take such steps as were possible to ensure that they were not confronted again, at equally short notice, by an emergency requiring critical decisions to be taken without adequate preparation. Contingency planning for eventualities of this kind should therefore be put in hand; and, although in certain of its manifestations it might need to be confined to a very small number of Ministers directly concerned, other aspects of our future economic policy should receive more continuous and systematic attention from a Ministerial Committee which should be specially constituted for this purpose and should report regularly to the Cabinet. This Committee should be concerned not with detailed issues but with the
broad strategy of economic policy. Moreover, it should consider not merely the defensive measures which we might have to take if our economic situation deteriorated once again but also the positive steps which would be required if the balance of the economy was restored and it became possible to relax the disinflationary pressure and to introduce selective measures of reflation. All these issues would need to be examined in relation to the basic problem of the future position of sterling in the world and the growing threat of a shortage of international capital.

Any systematic examination of future economic policy on these lines should also include a reassessment, whether by the new Ministerial Committee or otherwise, of the priorities at present governing Government expenditure, which had been largely inherited from the Conservative Administration but might now need to be radically revised. This process should be carried out, if possible, before the Cabinet were required finally to decide the details of the 1967-68 Estimates, which were at present under examination by the Committee on Public Expenditure.

The Cabinet -

Took note that the Prime Minister would consider arrangements to ensure that the strategy of future economic policy would be kept under regular review.

Cabinet Office, S.W.1.

4th August, 1966
This record can be filed in the MCR series with a brief note to the effect that -

"At their meeting on 13th October, 1966 (CC(66) 50th Conclusions) the Cabinet considered the possibility of using force to bring to an end the rebellion in Rhodesia. No reference to this discussion is made in the Cabinet Minutes of that meeting; but the following is a record of what was actually said and decided."

31st October, 1966
THE SECRETARY OF STATE FOR DEFENCE said that the Rhodesian Army numbered 10,000 men, formed in ten battalions, together with a Special Air Service Regiment and an Artillery Regiment; all were well equipped with modern weapons. There was an armed police force of 12,000. The Rhodesian Air Force comprised three squadrons of modern ground attack aircraft and one squadron of Canberra light bombers. The morale of the forces was good. Some very senior officers were opposed to the illegal regime but would not attempt to use force against it. The rest supported the Rhodesia Front and their backing for the regime had become firmer during recent months. The former Army Commander considered that they would fight hard to defend Rhodesia.

For any British operation there would be no main base nearer than Aden; and forward mounting bases in Nairobi, Lusaka, Blantyre or from carriers off Beira would be at great distances from Rhodesia. For supplies by sea the nearest port at Dar-es-Salaam was 1,000 miles from Rhodesia and the road and rail facilities between them were inadequate. We should require full facilities from neighbouring countries, Zambia, Kenya, Tanzania and Malawi, as well as overflying rights over Mozambique. A further condition was that South Africa would not intervene. The operation would require five brigades with artillery support. These forces could be made available only if heavy withdrawals were made from Germany. By mobilising all available air transport and requisitioning shipping three brigades could be positioned in ten weeks and five brigades in three months. This long preparatory period would give time for political pressure to build up in the United Kingdom and might provoke South African intervention. It would be impossible to achieve surprise. Although the risk of pre-emptive action by the Rhodesian Air Force was not high, it seemed highly probable that power supplies from Kariba to Zambia would be cut off. For our own operation a pre-emptive air strike would be necessary on all Rhodesian airfields; and at some, such as Salisbury, there would certainly be civilian casualties. The campaign itself might well be short; but thereafter we should be committed to occupying the country, with a bitterly hostile European population and with no Africans capable of running the country. We might well find that we should soon be under the same pressure as were now operating against the illegal regime, i.e. to hand over to African rule before the Africans were qualified to exercise it.

In discussion there was general agreement that an operation on the lines described by the Secretary of State for Defence was impracticable and that it would be wrong to threaten the use of force as a means of impressing public opinion in Rhodesia. It was suggested that we might consider more limited types of operation in support of the policy of mandatory sanctions; these sanctions might well prove ineffective and we should be under increasing pressure to agree to some further action. It was confirmed that certain possibilities in this connection were under consideration; but even a blockade of Mozambique, let alone of Southern Africa as a whole, would require very considerable forces.
THE PRIME MINISTER, summing up the discussion, said that in view of the statement by the Secretary of State for Defence the use of force to defeat the illegal regime was clearly impracticable and we should therefore not use the threat of force against Rhodesia. But it might be impressed on the regime in Salisbury that, if our terms for a settlement were rejected, we should have to withdraw the protection which we had hitherto afforded Rhodesia in the United Nations; and we might add, without spelling out the consequences in detail, that, if mandatory sanctions were imposed and enforcement action was taken in support of them, there could be no telling where this road would lead.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office, S. W. 1.,

13th October, 1966.
1966

CC(66) 32nd Conclusions, Minute 2  Reform of the House of Lords  (CA)
CC(66) 37th Conclusions  The Economic Situation  (CA)
CC(66) 41st Conclusions, Minute 4  The Prime Minister's Visit to Washington  (CA)
CC(66) 42nd Conclusions, Minute 3  Economic Situation  (CA)
CC(66) 50th Conclusions  Rhodesia: The Use of Force  (MCR)

1967

CC(67) 2nd Conclusions  Royal Marriages Act, 1772: The Earl of Harewood  (NCR)
CC(67) 25th Conclusions  Effect of Entry into the European Economic Community on the United Kingdom Balance of Payments  (NCR)
CC(67) 46th Conclusions, Minute 1 (Part)  Hong Kong  (CA)
CC(67) 50th Conclusions  Devaluation  (NCR)

1968

Note of Meeting at No. 10 Downing Street on Friday, 15th March 1968  International Monetary Situation  (NCR)
CC(68) 21st Conclusions  International Monetary Situation  (CA)
CC(68) 22nd Conclusions, Minute 1  International Monetary Situation  (CA)
CC(68) 47th Conclusions, Minute 1  International Monetary Situation  (CA)
CC(68) 48th Conclusions  International Monetary Situation  (CA)
PUBLIC RECORD OFFICE

Group/Class .................. CAB 128
Piece .......................... 46

CC(67) 46(1) PT
CC(68) NOTE OF MEETING ON 15.3.68. 21st, 22nd, 21st, 22nd, 21st, 22nd
CC(69) 15th(1), 22nd, 41, 42(2), 43(3), 44(4), 46(4)
CC(70) 7th(4)

1967 SEP (67) 8th MEETING ITEM 1.

RETAINE IN DEPARTMENT

(date) ......................... 13/9/96
(Signed) ....................... Alan Glennie
THE COMMONWEALTH SECRETARY said that there had been a grave incident on the border of Hong Kong the previous day. In a village which spanned the frontier between Hong Kong and China, several hundred demonstrators had attacked the Hong Kong police station and there had been firing across the border. Five policemen had been killed (four of them before they themselves had been given authority to open fire) and eleven policemen had been wounded. British troops had been brought up but the demonstrators had dispersed and it had not been necessary for the troops to open fire. There was no evidence that the Army of the People's Republic of China had been involved, nor the Chinese Government, but Chinese newspapers admitted that the Chinese militia had been used and further inflammatory propaganda was being issued in Peking in respect of our position in Hong Kong. There had subsequently been further attacks on the police in which two policemen had been killed and, if disorders continued on this scale, it would not be possible for the police to maintain order indefinitely. It would be provocative if troops were used to maintain order, but this might become inevitable. It must, however, be recognised that this might lead to still further exacerbation of the situation and that our position would quickly become untenable if the Chinese Government were determined to evict us from the Colony.

In discussion concern was expressed by the Cabinet at the gravity of the situation and at the risk to our position in Hong Kong. There was general agreement that the report currently being prepared by officials on the action which we should take if it became impossible to maintain our position in Hong Kong should be completed and circulated to Ministers as a matter of urgency. It was also suggested that there would be advantage in setting up a Committee of the Ministers primarily concerned to keep the situation under constant review and to agree on any action which might be necessary in an emergency. It was also suggested that the present division of departmental responsibility between the Foreign and Commonwealth Secretaries in respect of our interests in China, on the one hand, and Hong Kong, on the other, might complicate reaching agreement on policy and the taking of action, particularly where decisions were urgently required.
THE PRIME MINISTER, summing up this part of the discussion, said that the report by officials should be circulated to Ministers as quickly as possible. He would consider what arrangements should be made to enable the Ministers primarily concerned to keep the situation under constant review and to take immediate decisions as events might require.

The Cabinet -

Took note that the Prime Minister would consider what action should be taken to facilitate collective Ministerial consideration of the situation in Hong Kong and in particular to consider urgently the report now being prepared by officials on the action which should be taken if our position in Hong Kong became untenable.

Cabinet Office, S.W.1.

11th July, 1967
In the course of the discussion on incomes policy THE PRIME MINISTER invited the Cabinet to consider the wage claims before them not only on their individual merits but also in terms of their political implications during a period in which the Government must face an approaching General Election. If excessive wage settlements provoked a new economic crisis of a kind requiring fresh measures of restriction or an autumn Budget, the Government's freedom of electoral manoeuvre could be seriously affected; and this danger would be aggravated if international speculation about the renewal of inflationary pressure in the United Kingdom reached a level at which the stability of sterling came under renewed threat. In considering the current wage claims, therefore, the Cabinet must weigh carefully the implied risk that they might provoke a revival of demand inflation. The risk of cost inflation could be held to be no less serious; and, although the wage claims under consideration, being confined to the public sector, might be thought to have relatively little relevance in this context, this argument would be nullified in so far as they set a precedent for comparable claims in the private sector. The economy could not stand a dock strike or a seamen's strike. But, if this was so, and if it followed that the Cabinet would have to yield in the face of a threat of such a strike, they should avoid, so far as possible, any action in relation to the public sector which might provoke or aggravate demands for unacceptable wage claims in the private sector.
These considerations had a direct bearing on the phasing of the wage settlements now in question. If it was indeed the case that further concessions of the kind advocated by the responsible Ministers might provoke an economic crisis requiring further measures of restriction, it would probably be desirable, on balance, to try to defer such measures, if possible, until after the General Election. If the Labour Party were then returned to power, it would no doubt be distasteful to have to introduce a policy of restriction immediately thereafter; but this situation would have to be faced. If, on the other hand, they lost the Election, they might do so by only a narrow margin; and in that case the Conservative Party, who would then constitute the Government, would have to shoulder the responsibility for dealing with the potentially inflationary problem which they would have inherited, a problem which they would probably find it impossible to resolve consistently with their declared policies in other fields. In either case the Labour Party might be better placed than if they had been compelled to introduce fresh disinflationary measures before appealing to the country. On this basis the Cabinet should consider how the phasing of forthcoming wage settlements - particularly as regards the choice of effective dates for their second stages - might contribute most effectively to a process designed to defer for as long as possible the need to introduce renewed measures of disinflation.

THE CHANCELLOR OF THE EXCHEQUER said that there were certain risks in any course of action which would merely seek to postpone until after a General Election the action necessary to deal with the situation which might be created by
excessive wage settlements. The Government might be unable to adhere to the timetable involved; and in that event they might be compelled to appeal to the country at a time and in circumstances which in other respects would be unpropitious. Moreover, the economy would be in an increasingly vulnerable condition during the whole of the period in question; and the Government would be putting at risk the economic recovery which they had now achieved after several years of great difficulty and anxiety. It could be argued to be better for the Labour Party that they should lose the next Election but should leave behind them a record of sound management of the economy than that they should put that record at risk in order to achieve an electoral victory which might be no more than marginal. He could not endorse this course; and for the reasons which he had given earlier in the discussion he would judge it wiser to continue to resist excessive wage claims. Until recently he had thought it possible to accept a degree of relaxation of the prices and incomes policy which might result in a 10-12 per cent rate of wage increase. But this had proved to be feasible for only a short period; and now that claims were running at a 20 per cent rate of increase it must be made apparent that the Government were not prepared merely to acquiesce in this tendency but were determined to bring it to a halt before the situation deteriorated still further. It was not sufficiently realised that all the interests now before the Cabinet had already received substantial wage increases during the last four or five years; and a more determined attempt should be made to convince public opinion that the public sector had neither been unfairly treated in the matter of wage increases nor been allowed to fall so far behind the private sector as
The Cabinet should take particular care to prevent any disclosure of the fact that their discussion had involved, among other things, a reference to the possibility of a renewed threat to the strength and stability of sterling.


12th February, 1970
This note records part of the discussion on the above item which is not referred to in the minutes of the meeting.

THE LORD PRESIDENT said that, if the maximum growth rate which was consistent with stability in the balance of payments was the average of 3¼ per cent per annum postulated in the report by the Medium Term Assessment Committee annexed to SEP(67) 41, the Government could not escape the dilemma of being compelled either to restrict personal consumption to a degree which would be unacceptable or to reduce expenditure on social services in a way which would be inconsistent with the Government's philosophy and with their political commitments. The only way of escaping from this dilemma was to secure a higher growth rate. This meant that we must devise policies to secure an increase in exports and a reduction in imports. There was no sign that existing policies were likely to achieve this; and we should therefore re-examine the desirability of more drastic changes in policy. He was not arguing that a change in the parity of the pound was necessarily the right solution; he was only suggesting that a thorough examination of this question was desirable before economic strategy for the medium-term was settled.

THE PRESIDENT OF THE BOARD OF TRADE said he did not believe that devaluation would solve the problem. Nevertheless, he agreed with the Lord President that existing policies seemed unlikely to ensure satisfactory economic progress; it seemed more probable that they would compel us to run the economy at a level of demand which would entail under-use of resources, high unemployment and low investment. Some new departure in policy might therefore be needed; and quantitative restriction of imports was a possibility. He did not advocate that this should necessarily be considered now; but it should be re-examined before long unless some evidence was forthcoming that existing policies would lead to a more acceptable economic prospect than at present seemed likely.

In discussion, it was pointed out that the Cabinet had discussed the question of parity as recently as the meeting at Chequers on 30th April. No useful purpose would be served by reverting to this issue, particularly in view of the risks which could arise if it were reopened and this became known. There were no conclusive grounds for thinking that devaluation would make possible a higher growth rate and hence a more rapid increase in personal consumption and public expenditure. Moreover, devaluation could only achieve the desired effects on the balance of payments if it were accompanied by a considerable measure of deflation, including higher taxation. It would therefore entail a real reduction in the standard of living, which would be resented by public opinion. The extent of the benefit to our exports which might accrue from devaluation was problematic, since many exporters might simply absorb the increased profits instead of reducing prices and expanding sales abroad.
A recent poll of informed opinion showed that, while a majority of economists were in favour of a change in parity, the greater number of bankers and industrialists were equally opposed to it. So were the general public, on grounds that it was domestically painful to devalue the currency: even if the issue was imperfectly understood, the conclusions reached in that respect were sound enough. In any case, a decision to change the parity could only be taken in the light of international considerations, in circumstances in which the credibility of the Government's action would be accepted, and not simply on the grounds of the state of the domestic economy.

28th June, 1967
On 19th January, 1967, the Cabinet considered the situation which had arisen as a result of the fact that Lord Harewood had recently announced in public his intention to part from his wife and to marry Miss Tuckwell, by whom he had had a son some two years earlier. Divorce proceedings between Lord Harewood and his wife had already been set in train.

THE HOME SECRETARY informed the Cabinet that Lord Harewood would be prevented by the Royal Marriages Act, 1772, from contracting a new marriage without the consent of the Sovereign signified under the Great Seal and declared in Council. Alternatively, if his marriage were disapproved by the Sovereign, he would be entitled to give notice of his intention to the Privy Council and to marry after an interval of 12 months unless both Houses of Parliament had declared their disapprobation. This situation, however, could only arise if The Queen had initially refused permission; and, since it would be liable to seem anomalous in modern circumstances that permission should in fact be withheld, it would clearly be embarrassing to Her Majesty to have to adopt this course.

Two alternative courses of action were possible:

(a) The Act of 1772 could be amended. There was a strong case on merits for altering it since, although its basic purpose was to safeguard the succession, it was so drawn that its provisions applied to many individuals who, despite their connections with the Royal Family, were never likely to succeed to the Throne and were therefore entitled to regard their matrimonial affairs as their private concern. On the other hand, the concurrence of other member countries of the Commonwealth was required, under the Statute of Westminster, in any amendment of the law touching the succession; and it was undesirable that these issues should be raised in public, for example in the Canadian Parliament, at an inopportune moment.

(b) The Queen could give her consent to the remarriage. But, since she was Head of the Church as well as Head of the State, she might be expose to criticism in Church circles if she consented to Lord Harewood's remarriage, given the circumstances of the divorce.
Of these two courses the latter appeared to be the least disadvantageous, provided that The Queen's position was protected, i.e. provided that she acted, and was known to act, on the advice of her United Kingdom Ministers. It would therefore seem right that the Government should tender advice to Her Majesty in this sense and that at the appropriate time - i.e. when Lord Harewood sought The Queen's formal consent to his remarriage after the conclusion of the divorce proceedings - they should state publicly that they had done so.

In discussion there was general agreement with this proposal. The Cabinet recognised that, in tendering formal advice to the Crown in a matter of this kind, they might be creating a precedent - at least in the sense that, although it had been accepted in the past that The Queen's consent in matters of this kind was an act of State (and therefore to be given only on the advice of Ministers), there nevertheless appeared to be no previous occasion on which formal advice had in fact been tendered in such circumstances and there was certainly no occasion on which a Government had publicly stated that they had so advised the Crown. On the other hand the circumstances of the present case were unusual and perhaps unlikely to recur; and there appeared to be no alternative to proceeding as was proposed.

In further discussion it was suggested that consideration should be given to the possibility of amending the 1772 Act at some opportune moment, provided that it continued to apply to such individuals as were clearly in the line of direct succession. It was not certain that this would involve the risk of embarrassment in relation to other monarchical countries of the Commonwealth partly because, even if their concurrence was required, this need not necessarily imply that they must themselves enact legislation for this purpose (as distinct from signifying their assent by an executive decision) and partly because it could be argued that United Kingdom legislation which merely limited the Act to, say, the first six individuals in the line of succession would not in itself affect the succession and that the concurrence of other Commonwealth countries would not therefore be required in any event. On the other hand Sir Anthony Eden had stated, in reply to a Parliamentary Question in 1955, that no amendment of the 1772 Act could be undertaken without the concurrence of the other Commonwealth countries; and in the light of this statement there might be a case for examining the question further in due course.
The Cabinet -

(1) Took note that at an appropriate moment the Prime Minister would tender advice to The Queen that she should consent to Lord Harewood's remarriage.

(2) Agreed that it should be made publicly known that, in giving her consent, The Queen had acted on the advice of her United Kingdom Ministers.

(3) Took note that the Prime Minister would arrange for further consideration to be given in due course to the desirability of amending the Royal Marriages Act, 1772.

Cabinet Office, S.W.1.
19th January, 1967
Devaluation we could reasonably aim at an improvement of at least £300 million in our balance of payments. This, with the further improvements which might be expected in later years, should offset any damage to our balance of payments which might result from our entry into the Community. At the same time, since the initial damage to the balance of payments that would be caused by devaluation was also put at about £300 million, the total shift of resources that would be required in the first year would be some £600 million. Part of this diversion of resources would be achieved by the deflationary effect of higher import prices, which would, of course, entail a higher cost of living. But it would also be necessary to impose additional taxes to the extent required to ensure that sufficient resources were available to meet the improvement in our exports which the devaluation would make possible. The amount of this additional taxation was put at about £400 million. These calculations assumed that we should maintain a rate of unemployment of the order of 1.8 per cent, i.e. somewhat less than we now had. In short, we should need to divert at least £600 million of resources from domestic use to exports; and additional taxation of perhaps £400 million would have to be raised in the first year. The resulting austerities would therefore be additional to those which we were suffering at present.

It was also necessary to take into account the external effects of devaluation. First, there would be the effects of imitation of, and retaliation against, our devaluation of which he had already spoken. There would also be a loss of confidence by the holders of sterling, who would inevitably draw down their balances if we devalued. There would be a further reaction upon confidence in the dollar, opening up the possibility of a flight into gold and a consequential reduction in world liquidity, which in turn would react upon our export markets. The device of a floating rate which had been put forward as a way out of these difficulties was not a solution. It would not be attractive to holders of sterling, who would be bound to take the view that we had allowed the rate to float in order that it should float downwards rather than upwards; and this assumption would create the conditions in which the rate would be bound to fall progressively. In sum the external consequences might well lead to a return of those disorders in world trade and payments which the International Monetary Fund had been established to counter; and they would inevitably result in a period of considerable confusion before international stability was eventually restored.

The alternative was to follow a policy designed to overcome the internal disabilities from which our economy had been suffering. We were now set on this course, which would not be easy to follow but would nevertheless be within our capacity, as recent discussions had confirmed. It followed that, whilst a theoretical case could be constructed in favour of devaluation at the point when we entered the EEC, it would unleash such powerful adverse forces beyond our control and would involve a breach of so many pledges which he had given to holders of sterling that he could not remain Chancellor of the Exchequer if this course were adopted.
In discussion it was asked why, if the consequences of devaluation would be so unfavourable for us, the French appeared to have benefited from it. In reply it was pointed out that the French (who had had to devalue twice) had had no problem of franc balances on the scale of the sterling balances. Moreover, their devaluations had been accompanied by price increases and compulsory wage stabilisation (estimated to have produced an 8 per cent reduction in real wages), which had been made possible only by the personal authority of General de Gaulle and the weakness of the French Parliament. It did not seem politically feasible that, e.g. Part IV of the Prices and Incomes Act, should be reintroduced and reinforced not only in order to hold down incomes but also to effect a substantial reduction in them.

It was also asked whether the improvement in the balance of payments which devaluation might be expected to secure in, say, the third year would not offset the disadvantages which it was estimated would be caused in the first year. In reply it was stated that it was not possible to make an effective quantification of these advantages because of the uncertainties of assumptions about such factors as the elasticity of demand for exports and imports. In the third year the balance of payments should certainly show an improvement; but to reach that point the Government would first have to survive the initial impact.

In further discussion, it was suggested that devaluation was irrelevant to consideration of our entry into the EEC, since its effects would be concentrated in the short term, whereas the adverse consequences of entry, particularly as regards acceptance of the common agricultural policy would involve a long-term worsening of the terms of trade and a reduction in the standard of living. These long-term effects could not be altered by devaluation. On the other hand it was urged that the adverse consequences of entry might well create conditions where devaluation was forced upon us; and it was therefore right to consider whether we should forestall this situation by devaluation before entry. If we entered the Community without devaluing and subsequently found that we had miscalculated, we might not be allowed, as members of the Community, to devalue our currency. But in that event the only alternative would be severe deflation, which in turn would offset the advantages of economic elan which it was claimed we might secure as a consequence of entry, but only if we were to enter very quickly. As against this, however, it was wrong to interpret the analysis which had been put before the Cabinet as representing devaluation and deflation as alternatives. Devaluation itself would require to be reinforced by sharp deflation. In the context of the time-scale of entry to the EEC the additional shift of resources required to offset the extra strain which entry might place on the balance of payments amounted to no more than 1/3 of 1 per cent of the estimated annual growth rate, starting in about 1970, and thereafter making itself felt only gradually over a transitional period of five years or more, so that the full strain would not be felt until 1975 or later. Meantime, we should have had the opportunity, as full members of the Community, to influence the critical decisions of the EEC on such relevant matters as the
common agricultural policy and the harmonisation of economic policies. Moreover, the savings on defence and foreign policy which were likely to emerge from the forthcoming decisions on the Defence Review should produce substantial savings in foreign exchange by 1975. We should also have discharged our remaining debts to the IMF by 1970. Further, only free access to the larger market of the EEC would give British industry the necessary stimulus for investment and growth, the effects of which would be an increasing force in our favour in the years 1970-75.

THE PRIME MINISTER, summing up this part of the discussion, said it had been right to consider the issue of devaluation in the context of the approach to Europe. Devaluation must always be one of the options open to the Government, whether they entered the EEC or not; and it was always permissible for the Chancellor of the Exchequer to raise this issue in the appropriate way at the right time. There were, however, extremely powerful objections, as outlined by the Chancellor of the Exchequer and in discussion, to devaluation as a way out of our present and prospective difficulties. It was of the highest importance, therefore, that no hint should be given outside the Cabinet that the question of devaluation had been under discussion; if any disclosure were made, the consequences could be extremely grave. The Cabinet should now resume the main theme of their discussion of C(67) 61.

Cabinet Office, S.W.1.

30th May, 1967
PUBLIC RECORD OFFICE

Group/Class: CAB 128

Piece: 46

CC (67) 46th Conclusions

CLOSED FOR 40 YEARS

(date) 3. 11. 97
(Signed) [Signature]
This note records a discussion which took place after the conclusion of the Cabinet's main business and is not recorded in the circulated Conclusions.

THE CHANCELLOR OF THE EXCHEQUER said that some 70 of the Government's supporters in the House of Commons had signed a manifesto, which had been published that day, proposing in effect a devaluation of sterling. This could have serious repercussions on international confidence in the parity; and it was therefore essential that the Government themselves should not be thought to be associated in any way with the signatories of the manifesto. Otherwise, devaluation might become inevitable; and a decision which, if it were ever taken, should be an act of considered and deliberate policy would be forced on the Government at a time and in circumstances which might be wholly inappropriate. He himself did not accept that devaluation represented any solution to our present economic difficulties; and he was not prepared to be a party to it. Moreover, whatever views his colleagues might privately hold on the possible merits of devaluation, it was essential, if the Government were to retain their freedom of decision, that they should consistently maintain in public that the Government were resolved to maintain the present parity.

In discussion there was general agreement that Ministers should follow the course indicated by the Chancellor of the Exchequer and should ensure that their junior Ministers and Parliamentary Private Secretaries did likewise. At the same time, Ministers should avoid inflating the importance of the manifesto which had been published that day. It must be deemed to have been prompted largely by apprehensions on the part of the Government's supporters that the current review of public expenditure would result in drastic reductions in expenditure on the social services; and it would therefore help to reduce the chances of further damaging statements on devaluation if an early opportunity could be found to allay these apprehensions. It would also be particularly important to seek to steady opinion on the question of devaluation during the forthcoming debate on the economic situation; and, since this debate would be founded on an Opposition Motion of "no confidence", arrangements should be made to remind the Government's supporters of their overriding duty in such circumstances.

THE PRIME MINISTER, summing up the discussion, said the Chancellor of the Exchequer was clearly right to take a robust line in affirming that the Government were resolved to maintain the existing parity of sterling. It was essential that all Ministers should follow this lead and should ensure that their junior Ministers did likewise.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office, S. W. 1.
20th July, 1967
This note records a part of the discussion by the Cabinet, which is not included in the circulated record, of the note by the Secretary of the Cabinet (C(67) 61) on the effects of entry into the European Economic Community (EEC) on the United Kingdom balance of payments.

It was argued that it was a major premise of the memorandum before the Cabinet that we should not enter the EEC unless our economy was fully competitive, with a relatively good level of efficiency - wages and a surplus on the balance of payments sufficient to enable us to take the strains of entry. But we were still some way from such a condition; and if we were to enter in any weaker state, the consequences would be grave. In furtherance of our existing balance of payments objectives, it had already been necessary first to arrest, and now to continue to restrain, the rate of growth of the economy; to maintain an undesirably high level of unemployment; and to curtail desirable social expenditure. If we were to enter the EEC, the substantially adverse effects on our balance of payments would add to these present difficulties. It would not be acceptable, however, to meet this additional burden simply by intensifying present deflationary policies with their unpalatable economic and social consequences; and it would therefore be necessary to consider major policy changes. There were two main possibilities - first, a major change in foreign policy which would permit cuts in defence expenditure overseas greater than those now in contemplation (a course which would be entirely consistent with entry into the EEC); second, a change in the parity of sterling. In particular, without some degree of devaluation we were unlikely to secure the further shift of resources into exports and import substitution, over and above that necessary to resolve our present difficulties, which would be required to mitigate the adverse effects of entry on the balance of payments. But a decision to devalue sterling could be discussed only by a very small number of Ministers; and both the discussion and the decision would have not only to remain secret but, if necessary, to be denied until the decision had been announced. It was therefore right that there should be some discussion of devaluation before any decision was taken which might, as a consequence, lead to circumstances in which devaluation could not be ruled out.

THE PRIME MINISTER said that the points which had been raised were relevant in the present context. Nevertheless, the Cabinet would appreciate that there were great dangers in any discussion of a change in the parity, as was shown by the experiences of last July when a grave run on sterling had resulted from a popular belief that the Government had an adjustment of the parity under consideration. It must always be open to any Chancellor of the Exchequer to consider
devaluation at the proper time and in full secrecy. In the context of entry to the Community, however, there would probably be strong resistance in France to a British devaluation. During the visit which he and the Foreign Secretary had recently paid to Paris M. Pompidou had disclaimed the sentiments attributed to him last July and had specifically stated that we had been right not to devalue at that time. Whilst devaluation remained an option which was open to us, it was not a one-way option; it could have economic consequences no less unpleasant than those of deflation. The Cabinet might wish to discuss the subject further from this point of view. But it would be imperative that any such discussion should remain strictly secret and should not be imparted to any other individual, whether Ministerial, official or advisory.

THE CHANCELLOR OF THE EXCHEQUER said he agreed that it was right that he should give the Cabinet his views on this question in the strictest secrecy. He was bound to say at the outset that devaluation was not an option which was open to him personally - he had given too many pledges to holders of sterling for that. Nevertheless, it must be recognised that devaluation remained both an option open to us and a course which might be forced upon us. It would, however, present us with fundamental difficulties, of which the most important was the problem of choosing the right rate to which to devalue. Too small a devaluation would lead to the expectation of further similar measures and so to renewed speculation. It would also confer no sufficient advantage, e.g. in terms of import deterrents and export incentives. On the other hand, too great a devaluation would invite other countries to follow our lead not only in order to stay on comparatively favourable competitive terms with us but perhaps also in certain cases for retaliatory reasons stemming from ulterior motives in the international monetary field - the French hostility to the dollar as the main reserve currency was a case in point. The choice of rate would therefore be a very delicate one. If we chose the right rate, our import prices would not rise to the full extent of the devaluation, because some of our sterling area suppliers, for example, would devalue pari passu with us. Nor would our export prices fall in real terms by the full extent of the change in parity, because some of our exporters would take the opportunity to increase their profit margins whilst maintaining or increasing their volume of sales. In general, however, it could be assumed that, while devaluation would cause substantial short-term damage to the balance of payments, its long-term impact should be much more than offset by the expansion of exports and the contraction of imports which it should stimulate. A final assessment of the total effect, however, was very difficult to frame because of the problems of quantification which had been underlined in another context during the present discussions. Nevertheless, a tentative analysis of the overall effects had been made in the light of the experience of the French devaluations of 1957 and 1959, on the basis of the most favourable assumptions which could be made as to the choice of rate and other factors. On that basis the best estimate was that in the first year after a
The Prime Minister said that, during his absence on his visit to Nigeria, a political situation had developed, initially within the Parliamentary Labour Party (PLP) and subsequently on a national-wide scale, which clearly required the firmest handling by the Government. He himself intended to give a clear lead for this purpose; but he would need the full support of the Cabinet, acting in complete unity.

There had for some time been a growing tendency for some Ministers to act in ways which called in question the collective responsibility of the Cabinet, in so far as they had apparently felt free, in their personal dealings both with members of the PLP and with the Press, to dissociate themselves from certain of the Government's policies and to allow this to be known to outside bodies, particularly the Trade Unions, with whom their colleagues were often conducting difficult and delicate negotiations in the name of the Government as a whole. Before a decision was reached on any item of Government policy a Minister was entitled to defend his own point of view within the Cabinet as strongly and persuasively as he wished. But once a decision had been taken the principle of collective responsibility required every member of an Administration to endorse it and to defend it to any outside body on any occasion, whether private or public. This remained true even if the Minister was himself a member of the outside body concerned. There was no objection in principle to Ministers retaining affiliations of this kind provided that no conflict of interest or allegiance resulted. But this proviso was especially important in the case of Ministers who were members of the National Executive Committee of the Labour Party (NEC), where any clash of loyalties was liable to be particularly embarrassing. It had to be recognised that the NEC's concept of its relationship to the Parliamentary Party had changed since the Labour Party became the Government Party. During the Labour Government of 1945-51 the Executive would never have sought to enforce a decision of the annual conference of the Party on the Government. And even in 1960, when the Labour Party were in Opposition, the Executive had refused to try to impose the decisions of the conference on the PLP. Now, however, it was seeking to assert a right to withhold support from the Government on issues on which the annual conference had not yet expressed a view.
It would be unfortunate if circumstances developed, perhaps later in the year, in which it proved impossible to deal with this situation except by means of a ruling that no member of the Cabinet might offer himself for election to the NEC. He himself would greatly regret it if he were forced to give such a ruling, since the result would be not only to weaken the links between the Government and the NEC but also to reduce the latter to a body which was competent merely to discuss and to protest but not to exercise influence or to accept responsibility. Nevertheless, this situation could be avoided only if Ministers themselves recognised and accepted that, where any conflict of loyalties arose, the principle of the collective responsibility of the Government was absolute and over-riding in all circumstances and that, if any Minister felt unable to subscribe to this principle without reservation, it was his duty to resign his office forthwith.

He regretted that he had had to reaffirm this doctrine and to emphasise its correct interpretation in relation to membership of the NEC. But recent events had left him no alternative; and, since NEC membership was not confined to members of the Cabinet, he would arrange to draw the attention of all members of the Administration to the principle involved. For this purpose he must formally invite the Cabinet to endorse his statement as the definition of a code of conduct to be observed by all Ministers in relation to the collective responsibility of the Government. Thereafter it would be necessary to give further consideration to the best means of improving communication between the Government and the PLP and restoring the morale of the Party as a whole.

In discussion reference was made to the meeting of the NEC on Wednesday, 26th March, at which the Home Secretary had voted for a resolution which was at variance with the Government's policy on industrial relations, as recently published in the White Paper "In Place of Strife" (Cmd. 3888). THE HOME SECRETARY said that in his view there had been only a marginal difference between the attitude which he had adopted at the NEC meeting and the attitude adopted by the First Secretary of State when she had spoken in defence of the White Paper. He would ask colleagues to remind themselves of the speeches of the First Secretary and her Parliamentary Secretary during the debate on the White Paper in the House of Commons. She had clearly said on that occasion that its proposals were a matter for discussion with the interests affected and might therefore need to be amended before legislation was introduced. Unless this offer was meaningless and it was now intended that the Government would not in any circumstances be prepared to modify the proposals in the White Paper, there was clearly scope for compromise. This was all that he had sought to achieve, bearing in mind the difficult relationships with the Party and the unions in the summer ahead, even in its original form the resolution before the NEC had been
relatively mildly worded. Moreover, the amendment which had been proposed would have made it milder still in so far as it would have had the effect that the Executive would not have been committed to oppose "any" of the proposals but would have indicated that they could not endorse "all" of them and would have urged the First Secretary of State to give the matter further consideration. In its final form, it came so near to the purpose of the statement which the Government themselves had made when the White Paper was originally published that he could not agree that there had been any breach of collective responsibility on his part. But, if a contrary view was taken, he was very ready to discuss the matter further with the Prime Minister.

On the other hand it was recalled that the Cabinet had considered at an earlier stage a suggestion that the Government's proposals should be published as a Green Paper or in some other form which would indicate that the controversial proposals in particular were put forward as a basis for public discussion without commitment on the Government's part. But they had specifically rejected this suggestion and had decided that the proposals should be published as a White Paper, i.e. as a definite statement of Government policy which was not negotiable. Equally, the Cabinet had decided that there could be no concession on the three cardinal points in these proposals - namely, that an official strike should be preceded by a secret ballot; that an unofficial strike should be preceded by a pause for conciliation; and that this pause should, if necessary, be enforced by the sanction of attachment of earnings. And they had ruled that only if alternative suggestions which would be no less effective were produced could there be any question of modifying these proposals. Certain hypothetical modifications of this kind were in fact under consideration; but this did not affect the fact that those who took part in the meeting of the NEC on 26th March were well aware that the issue with which they were dealing was an issue of major policy, on which the Government's position had been made clear in the White Paper. The Home Secretary's intervention at the NEC could therefore be argued to have been, in effect, a vote against the Government's policy and an attempt to modify that policy from a position outside the Cabinet. As a result the resolution which had finally emerged had inevitably prejudged to some extent the outcome of the discussions with the interests concerned which the Government had undertaken to initiate; and the extent of the Government's embarrassment was illustrated by the fact that Trade Union branches in various parts of the country were now writing to certain Ministers deploring the fact that they were among those who had voted in favour of the White Paper. Moreover, the NEC had seen fit, during the public controversy which had followed their meeting, to refuse to circulate to the Press certain passages in a statement by a member of the Cabinet in which he had criticised the proceedings. The whole episode demonstrated the need for the Prime Minister to reassert his authority in the Cabinet and to require Ministers to accept the discipline necessarily inherent in the concept of collective responsibility.
THE PRIME MINISTER, summing up the discussion, said that, given the Cabinet's earlier decisions about the basis on which the White Paper should be published, it was clear that any Minister who had voted in favour of the resolution before the NEC at their meeting on 26th March had committed a breach of the principle of collective Ministerial responsibility. Nevertheless, he was more concerned with the future than with the past; and, provided that the basic principle was thenceforward observed strictly, he did not propose to take any further action in relation to the NEC meeting. It was open to any Minister to raise any matter within the Cabinet, which would have another opportunity to discuss the issues involved when the relevant legislation on industrial relations came forward for consideration. Meanwhile Ministers were committed, individually and collectively, to support the Cabinet's earlier decision as expressed in the White Paper "In Place of Strife" unless and until alternative, and no less acceptable, proposals were put forward.

As regards the more general issue the practice of canvassing outside support for personal views must thenceforward cease. It was possible that he had been too tolerant in this respect in the past; but he must now require the whole Cabinet to reaffirm the principle of collective Ministerial responsibility in the form in which he had stated it and in relation not only to White Papers but also to Green Papers while they were the subject of public discussion and to any other statements of Government policy. He would take steps to ensure that all members of the Government who were not members of the Cabinet were informed that they, too, would be expected to comply strictly with this principle thenceforward; and he would give further consideration to the implications of the action of Transport House in refusing to circulate, and thereby purporting to censor, a public statement by a Cabinet Minister.

He would use his own discretion in deciding the means by which the outcome of the Cabinet's discussion should be given appropriate publicity, as was clearly necessary in order to restore the morale of the Labour Party.

The Cabinet -

(1) Took note, with approval, of the Prime Minister's statement about the principle of collective Ministerial responsibility and of his intention to bring his statement to the notice of all members of the Administration as a code of conduct to be strictly observed.

(2) Assured the Prime Minister of their full support in any action which he might find it necessary to take in order to deal with any breach of this principle.
(3) Agreed that in the exceptional circumstances of the case it would be desirable that appropriate publicity should be given to the outcome of their discussion and took note that the Prime Minister himself, in his sole discretion, would make the necessary arrangements for this purpose.

(4) Agreed that it would be necessary after the Easter Recess to consider how best to improve communication between the Government on the one hand and the Parliamentary Labour Party, the National Executive Committee and the Labour Party in the country on the other hand.

(5) Reaffirmed their endorsement of the proposals in the White Paper "In Place of Strife" (Cmnd. 3888), subject to further consideration in the light of any alternative proposals which might be put forward before the Cabinet had to approve the relevant legislation.

Cabinet Office, S.W.1.

21st April, 1969
THE PRIME MINISTER said that on the previous day the Chairman of the Parliamentary Labour Party (PLP), Mr. Houghton, had made a prepared statement warning the Government that they should not press their proposed Industrial Relations Bill in the face of the opposition of their own back-benchers to the point of risking the disintegration of the Labour Party. This statement raised an important issue which had constitutional implications comparable with those which had been involved when Mr. Harold Laski, then Chairman of the Labour Party, had presented a similar challenge to the Prime Minister of the 1945-51 Labour Government, Mr. Attlee. It implied either that the Government must accept that they could not carry on the government of the country and must face a Dissolution of Parliament or that, if they continued to govern, they must do so on sufferance and in the knowledge that there were certain policies which they must not pursue, however necessary in the country's interests they might consider them to be. If the Government accepted such a situation at the dictation of the PLP, they would be acquiescing in a dangerous precedent, which might be invoked against them on subsequent and equally critical occasions; and they would be demonstrating the truth of their opponents' claim that Labour government did not work and could not work in any foreseeable future circumstances. The Cabinet themselves must be clear where they stood on this issue.

THE HOME SECRETARY said that the issues of principle raised by the proposed Industrial Relations Bill had strained the loyalty of the PLP and of some Ministers to breaking point. The Cabinet were not in fact in unanimous agreement on the Bill; and it could not be expected to achieve more than a bare majority in the House of Commons, even if all members of the Government voted in its favour; and that was an issue which they would need to consider when the Bill was available for discussion. He himself did not believe that the benefits which it was claimed would
result from the Bill were worth the destruction of the Labour Party; and he would do all in his power to prevent a Dissolution on an issue which was of such little real significance. He therefore strongly urged the Cabinet to consider how they could withdraw from the brink of disaster; in particular, they should realise that they could not enact the Bill in its present form and they should therefore refrain from publishing it before the Conference of the Trades Union Congress (TUC) on 5th June. Otherwise, they would inevitably destroy any possibility that the TUC might bring forward alternative proposals which would afford a way out of the impasse.

In discussion it was argued that, although Mr. Houghton had been at fault in issuing his warning as Chairman of the PLP, particularly on the eve of the local government elections in England and Wales, he had not in fact raised a strictly constitutional issue, unlike Mr. Laski who had addressed the Government of the day from a position outside Parliament. No Government could govern without the support of their own Parliamentary Party; and it was the right of any member of that Party, not least its chairman, to warn them that they ran the risk of forfeiting that support and destroying the Party itself. The Cabinet had throughout underestimated the opposition to the Bill; and it was a mistake to suppose that support for their policy was now growing or that it could be secured by the threat of a Dissolution. On the contrary, many members of the PLP now foresaw only defeat for themselves and for the Party at the next General Election in any event; and the Government should therefore lose no time in reassessing their attitude to the Bill for the sake of the Party's morale.

On the other hand there was reason to believe that many members of the PLP were content that the Government were actively seeking agreement with the TUC; and it was in the Government's interests to encourage the Party to turn from arguments about principles to the discussion of the details of industrial policy, from which agreement might emerge. The wisest course, therefore, would be to avoid any appearance of rebuking Mr. Houghton who had claimed to have alternative proposals of his own, and to allow time for a calmer approach to the Industrial Relations Bill to develop. At the same time the Government must avoid encouraging the irrational belief in the PLP that a new, but unidentified, Leader could rescue them from a desperate situation. It must be made clear to them that in this respect they were pursuing a fantasy; there was no question of the Cabinet's accepting that the PLP could overthrow the present Prime Minister and expect a successor to emerge in his place. The Party must shed the illusion that they could at the same time govern and not govern. If they rejected one Government they must be able and willing to support another; but this they could not produce from within themselves.
THE PRIME MINISTER, summing up the discussion, said that it must be clearly understood that any Minister who did not vote in favour of the Bill in whatever form it was eventually introduced could not, of course, remain a member of the Government. But it was clearly important that the Government, with the help which Mr. Houghton had promised earlier in the week, should endeavour in their forthcoming discussions with the TUC about the Industrial Relations Bill to find means of reducing the controversy within the Party and making the proposed legislation generally acceptable. It must not be thought that the statement by the Chairman of the PLP had placed the Government in a dilemma; but, equally, the Party should be in no doubt that, if they sought to overthrow the Prime Minister and it became impossible to maintain effective government, a Dissolution of Parliament would be inevitable. He would arrange to give further consideration, in consultation with senior colleagues, to the best way of handling the political situation henceforward.

The Cabinet -

 Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office, S. W. 1.

23rd May, 1969
TOP SECRET

CABINET

CONFIDENTIAL ANNEX

CC(69) 41st Conclusions

Tuesday, 19th August, 1969 at 2.00 p.m.

The Cabinet considered a memorandum by the Home Secretary (copies of which are available in the Cabinet Office) reviewing the situation in Northern Ireland and making proposals for the handling of the discussions between the Prime Minister and the Prime Minister of Northern Ireland later that afternoon.

The Home Secretary said that the situation in Northern Ireland had become more grave since the Cabinet last reviewed it on 30th July. There had been rioting in Belfast on the nights of the 2nd and 3rd August, barricades being built and petrol bombs thrown. The following week had been fairly quiet but he had suggested to the Prime Minister of Northern Ireland that to reduce the risk of further violence, he might consider banning the demonstration planned by the Civil Rights Association on the 11th August, the Parade of the (Protestant) Apprentice Boys on the 12th and the meeting of the (Catholic) Order of Hibernians on the 15th August. Major Chichester-Clark, however, had considered that it would be impossible to ban one of these occasions without banning them all; he had not expected that the March of the Apprentice Boys would itself lead to violence in view of the accommodation which had been reached locally between Catholics and Protestants and no trouble had been thought likely to result from the meeting of the Order of Hibernians. The Civil Rights Rally on the Monday (11th August) had been disorderly; on the Tuesday, there had been fighting in Londonderry, with the residents of Bogside determined to keep the Royal Ulster Constabulary (RUC) out of the area; and after a lull on Wednesday, there had been worse rioting on the Thursday, with tension mounting in Belfast. On the Thursday he had met the Prime Minister at the RAF Station, St. Mawgan, to discuss the situation, and later that day, with the Prime Minister's authority, he had agreed to the request of the Northern Ireland Government for troops to be brought in to restore order in Londonderry. Similar action had later been taken in regard to Belfast. Thanks to the efficient pre-planning of the Ministry of Defence, the troops had moved in very fast and order
had been rapidly restored in the limited areas where they could be deployed in force, although there had been some minor incidents elsewhere. Their arrival had been generally welcomed, in particular by the Catholics.

The question before the Government was what to do next. Opinions differed as to who was responsible for the troubles. There was a good deal of corroboration for the view that the Catholics had acted largely in self-defence, and there was little evidence to support the view of the Northern Ireland Government that the Irish Republican Army (IRA) were mainly responsible; but there was no doubt that the dominant feeling in Northern Ireland was fear. The initial impact made by the arrival of British troops could not be expected to last, and it was essential to act urgently to lower the temperature. He had himself posted a senior official and an Inspector of Constabulary with the General Officer Commanding (GOC) to advise him on the Government's political objectives and on English police practice; and he had sent the Deputy Commissioner of Police of the Metropolis and the Chief Constable of Hampshire to be liaison officers and consultants with the RUC and to assess the structural changes that might be needed in that force.

These were the aims which he suggested the Prime Minister should pursue in his discussions with Major Chichester-Clark. He thought that the latter was now a chastened man and that he would be willing to collaborate so far as he felt able. So long as he was willing to do so, it would be better to avoid direct intervention and
to use the Northern Ireland Government as agents; he would propose to place senior civil servants in the Prime Minister's Office and the Ministry of Home Affairs as a means of bringing influence to bear. It was important to remember that the majority of the population of Northern Ireland were Protestant; in seeking to allay the apprehensions of the Catholics, they must not drive that majority beyond endurance. He thought that in the circumstances Major Chichester-Clark would feel able to accept the withdrawal of the Specials and arrangements for their arms to be kept in armouries. Reactions to the proposals for an enquiry and for a change in the Inspector-General were difficult to forecast; there might be resignations at the top, but he thought that some middle-rank officers would welcome a change in the ethos of the force.

THE SECRETARY OF STATE FOR DEFENCE said that the deployment of troops had gone smoothly, and they had been welcomed by both sides; but there were already signs that the honeymoon period was ending. There would shortly be two brigades in Northern Ireland. Further units could be made available if needed, without affecting our North Atlantic Treaty Organisation (NATO) commitment, and this force should be adequate for its present role; but it would be quite inadequate to cope with a major emergency, such as would arise if the Protestant majority were stung into armed opposition. In that event, it would be necessary to draw on forces assigned to NATO. He was in agreement with the Home Secretary on the need to act urgently to make the situation less explosive; but at the same time, he wished to stress the importance of not pushing too hard and so alienating Protestant opinion. It was important to remove the 'B' Specials from Catholic and mixed areas - if possible this should be announced tonight - and to withdraw their weapons into armouries where they could be kept under control, and would not constitute a temptation to the IRA and other subversives. The GOC would then be able to consider what further troops he needed to maintain law and order; he was aiming at a light coverage of the whole country by mobile troops. The arrangement whereby the troops had been introduced at the request of the Northern Ireland Government and the continuing close contacts between the GCC, the Northern Ireland Government and the Home Secretary's representatives ensured civil control over the disposition of the troops.

He agreed that they should aim to retain the Northern Ireland Government as an effective force, for in that way they stood more chance of being able to withdraw the troops.

Finally he wished to support the proposal made by the Northern Ireland Government with the approval of the GOC, for the blocking of some minor roads crossing the border by cratering or other means; this would make it more difficult for the IRA to smuggle arms in and generally exploit the situation.
THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that the Government of the Irish Republic had been over-anxious to outflank the IRA and the extremists generally. Their Minister of Foreign Affairs, Dr. Hillery, had paid an uninvited visit to London, but had been told that we regarded Northern Ireland as a matter of internal jurisdiction. Dr. Hillery had now requested a meeting of the Security Council of the United Nations, and if normal practice were followed this request would be acceded to. He had also asked to address the Council. The Foreign and Commonwealth Secretary did not propose to object to his doing so, but he thought there was a good chance that the Irish would fail to muster the votes necessary for the item to be included on the agenda; that would be a satisfactory outcome. He was instructing our Ambassador in Dublin to remind the Government of the Irish Republic of their responsibility for curbing the activities of the IRA in Northern Ireland. The Prime Minister of Northern Ireland should also be reminded that foreign relations were the responsibility of the United Kingdom Government; a break with the Irish Republic would be most damaging, in the short run more damaging to us than to the Republic. But in his view the issues were mainly domestic, and their international significance, though important, should not be exaggerated. He agreed with the immediate steps proposed by the Home Secretary and on the need for immediate results (particularly in regard to the 'B' Specials) to be seen to flow from that evening’s meeting. For the future he would prefer to work through the Northern Ireland Government and thought that the proposal to influence them through senior civil servants stationed in Belfast was workable. But if they would not co-operate the Government would have no alternative but to assume direct control.

In discussion there was general agreement that the immediate need was to contain the situation and that for this purpose the steps proposed by the Home Secretary were the right ones; there would be no advantage in recalling Parliament. The first priority was to persuade the Prime Minister of Northern Ireland to accept the withdrawal of the Specials from the streets and their effective disarming. Subject to this, it would be desirable to leave the Ministers conducting the discussions with the Northern Ireland Government the widest possible discretion to play the hand as they thought best. The replacement of the Inspector-General of the RUC was also highly desirable, because withdrawal of the troops depended on the reconstitution of that force, but most members of the Cabinet thought that the talks should not be allowed to break down on this point. There was also agreement on the urgent need for results to be seen to flow from that evening’s talks. They should aim at the publication of a communique laying down basic principles and setting out the immediate decisions. This should make clear that the border was not in issue and that the problem lay wholly
within the jurisdiction of the United Kingdom Government, should explain the basis on which troops had been committed, and should refer to the programme of reforms already promised. The communique should be accompanied by a declaration of the right to equality of treatment of all citizens irrespective of political views and religion.

The time had not yet come to take decisions about the long-term future relationship between the two Governments; but the Government of Northern Ireland would have to recognise that the fact that they were unable to maintain law and order without the use of troops created a new political situation. The Prime-Minister of Northern Ireland had spoken of forming a more broadly-based administration, and he should be asked what he meant by this. There might be virtue in appointing a Minister of Community Relations, advised by a Commission representing both communities, to eliminate discrimination. Part of the frustration felt by the Catholic community arose from the fact that they had at present no hope of taking part in the Government; and the Commission on the Constitution might be asked to consider means of remediing this situation. These and other ideas should be studied with a view to legislation being introduced to amend the Government of Ireland Act.

All present were agreed that it would be preferable to work through the Government of Northern Ireland rather than take direct control, so long as that Government was prepared to co-operate and effective means of bringing influence to bear upon it could be found. Direct rule would pose a severe administrative problem and would increase the risk of armed conflict with the Protestant community. The Government should pursue a middle of the road policy and aim to prevent the future of Northern Ireland becoming a matter of acute political controversy.

If on the other hand the talks that evening produced no acceptable agreement more drastic measures would be inevitable. In that case, the Cabinet should resume their discussion as soon as possible.

In further discussion doubts were expressed about the wisdom of blocking minor roads crossing the frontier. It was suggested that such action would be over-dramatic and unlikely to be effective, the more so since the IRA were not the main cause of the trouble. On the other hand it was pointed out that similar action had been taken in 1956 and that it would add to the difficulties of the IRA in exploiting the situation; the request of the Northern Ireland Government was supported by the GOC. Agreement on this point might be a useful concession in the talks; no public announcement would be needed.
THE PRIME MINISTER, summing up the discussion, said that he had thought it right that the Cabinet should have the opportunity to consider the situation despite the authority which had been delegated to him. They were agreed that the first need was to contain the position and that for this purpose the steps proposed by the Home Secretary were appropriate. They were also agreed that the withdrawal and effective disarming of the Specials were essential and he would make it his prime purpose in his talk with the Prime Minister of Northern Ireland to secure his agreement to this. For the rest the Cabinet were content that he should reach the best settlement that he could on the lines which they had discussed, agreement to the blocking of roads might be an element in such a settlement but he would not take the initiative in proposing it. He proposed to start the talks that evening with a general discussion, and then work towards an agreed communiqué which would declare that the border was not an issue and that the disturbances were entirely an internal affair within the jurisdiction of the United Kingdom Government; explain the basis on which troops had been brought in; and refer to the programme of reforms to which the Northern Ireland Government were committed; this should be accompanied by a declaration setting out the principles which would guide the policies and the mutual relationship of the two Governments. The Prime Minister of Northern Ireland would be supported by a number of Ministers at the talks, and he therefore proposed that the Foreign and Commonwealth and Defence Secretaries should be present in addition to the Home Secretary. Assuming that the talks were successful it would probably be appropriate to have a second round of talks in about a fortnight's time at which longer term arrangements could be discussed. If however the talks came to no satisfactory conclusion, it would be necessary for the Cabinet to resume their discussion as soon as possible and he asked those present to hold themselves available. He would consider further in consultation with the Ministers most concerned how security intelligence might be improved. Finally he wished to emphasise the importance of ensuring that no hint of their discussions reached the Press which could be exploited by the Opposition or others to suggest that there was any disagreement in the Cabinet; the lives of our troops were at stake.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.

Cabinet Office, S.W.1.

20th August, 1969

-6-

TOP SECRET
The Prime Minister said that the meeting which had taken place on 19th August with the Northern Ireland Prime Minister, Major Chichester-Clark, had gone well. The discussions had been protracted largely by the need to discuss among ourselves the proposal made at the meeting by the Northern Ireland Prime Minister with - as was subsequently confirmed - the agreement of the General Officer Commanding, Northern Ireland, that the latter should assume overall responsibility for security operations. There had also been a good deal of discussion with the Northern Ireland representatives over the terms of the Declaration of Principles and Communiqué. However, the final result had been satisfactory. There had been no need, as at one time had appeared possible, to recall the Cabinet; and the objectives agreed by the latter at their meeting earlier in the day had in substance been achieved. Subsequently, the Home Secretary had visited Northern Ireland from 27th to 29th August: he invited the Home Secretary to report on the outcome of this visit.

The Home Secretary said that he had been accompanied on his visit by the Minister of State at the Home Office, Lord Stonham, and also by his Parliamentary Private Secretary, Mr. Roland Moyle, MP, both of whom had rendered invaluable services behind the scenes. He had found the Northern Ireland Government bewildered and inert. It had been difficult to arouse them to a realisation of the full gravity of the situation, possibly because for obvious reasons they had been able to see for themselves the situation in the areas where tension was at its highest. But though there was inertia, there was no ill-will and they had appeared ready enough to co-operate once they had been given a lead. He had addressed the backbenchers of the Ulster Unionist Party and had sensed a surprising amount of agreement with what he had said to them. They were however clearly apprehensive about the extent to which they could carry their supporters with them. He had also had contacts with religious leaders. Both Protestants and Catholics had emphasised that the problems of Northern Ireland were political and economic rather than religious.
but both had also expressed misgivings about the extent to which
the other Protestant churches were losing supporters to Mr. Paisley.
The Northern Irish were a tough people: the maintenance of law and
order in Ulster was a difficult task at the best of times; and
Mr. Paisley.

There was indeed some danger of a Protestant right wing backlash
in which the Ulster Unionist Party would lose support not to the
left but to the right. So far as security was concerned, he had
spoken to the Commandants of the 'B' Specials, all of whom were
retired Service officers. He had appealed - he thought not without
success - to their loyalty to the Crown and the constitutional
Government. Although this would be subjected to a severe
strain if there were a radical change in the role of the 'B' Specials,
the position would be eased if the change came as a result of the
independent investigation at present being conduced by Lord Hunt.
The Commandants would obey orders, but there remained some
doubts about the extent to which their men would follow them.
The handing in of the 'B' Specials' arms was an extremely
delicate operation, but it had been proceeding reasonably
well. There were however reports that some of these arms
had been finding their way to the Protestant volunteers controlled
by Mr. Paisley and others; and the situation would have to be
carefully watched. Meanwhile, the 'B' Specials had been withdrawn
from crowd control duties and restricted to the guarding of
vulnerable points and police stations. The Royal Ulster
Constabulary (RUC) remained unacceptable to large sections
of public opinion, both for reasons of history and because feeling
against them was being exploited for ulterior political motives;
and some areas in the large cities were still either self-policed
or without any effective enforcement of law and order. It would
be difficult to restore public confidence in the RUC and the Force's
confidence in itself; and major changes of policy, organisation and
personnel were likely to be called for in the light of Lord Hunt's
report. The public lack of confidence in the police forces threw
a heavy burden on the Army, whose commitment to the maintenance
of law and order was likely to have to continue for some considerable
time. Although the troops had done very well, they were not
trained in police duties: they could not be expected to carry them
out indefinitely: but for the present there was no alternative.

After outlining the measures taken following the Northern
Ireland Prime Minister's visit to London and his own visit to Ulster
the Home Secretary pointed out that while civil rights and non-
discrimination were of cardinal importance, the problem of
Northern Ireland was also to a very large extent an economic
one. From this point of view, the biggest problem of all was
Londonderry - a city divided against itself and without hope.
The pattern was that unemployment led to political extremism,
and extremism to disorders, which were then reflected in Belfast.
If even 1,500 jobs could be created in Londonderry, this would go a long way towards transforming the situation: and he appealed to his colleagues for their co-operation. The Irish problem, after nearly 50 years of relative stagnation, was on the move again and unrest was likely to continue as long as the long-term problem persisted, whatever we did in the short term to ease immediate pressures. The situation was a grave and urgent one. Time was not on our side. More barricades had been set up by both sides in Belfast the previous night. While this was more of a gesture than anything else, it was indicative of the atmosphere that still prevailed. But disturbing though the outlook was, it was more promising than it had been a generation ago. In contrast to the position in 1914, the British Army was not now emotionally involved. The Opposition at Westminster, whom he had been at great pains to keep informed - were no longer totally committed to the Protestant North; and despite some unhelpful public utterances by the Prime Minister of the Irish Republic, Mr. Lynch, and others, he judged that the temper in the Irish Republic was very different. As to this last point, he believed that our long-term objective should be to move forward towards a better relationship between Northern Ireland and the Republic. This would need very careful consideration and it might be that no major progress would be achieved within the lifetime of the present Parliament. However, as a first step it might be useful for the Prime Minister to see Mr. Lynch. The timing of this would need further thought: but talks might take place after he himself had paid a second visit to Northern Ireland, which it was his present intention to do about 8th-9th October; after the reports of the various commissions and other investigating bodies which had been set up had been received; and after further discussions in London with the Northern Ireland Prime Minister.

In discussion general appreciation was expressed of the way in which both the political and military aspects of the situation had been handled. The conduct of the troops had been exemplary: but they were not equipped or trained to do a long-term policing job. Although their presence and their obvious impartiality had been a valuable psychological deterrent, this was to some extent a wasting asset; and there was some doubt whether if there were further major outbreaks of violence, the troops would have the necessary experience or techniques to contain them. This made it all the more urgent to press on with the reorganisation of the regular police forces and the restoration of public confidence in them. The point was made that one illegal broadcasting station was attempting to create friction in Belfast and Londonderry between the troops and the local population: and it might be necessary to take action against the anarchist groups who were behind it. The Irish Republican Army was also trying to maintain tension and foment violence:
but it had not been very effective; its importance had been greatly over-estimated by the Northern Ireland authority; and there had been little real cooperation between it and the extreme left, even in the areas, such as the Bogside in Londonderry, where the writ of the Northern Ireland Government still did not run. There was general agreement on the urgent necessity of creating more opportunities for employment, especially in Londonderry and, in general, in the areas west of the River Bann, where both unemployment and the proportion of Roman Catholics were highest. The financial implications would have to be considered further when specific proposals had been worked out. The point was made that intelligence about the internal security situation had been deficient in the early stages. At that point, we had had to rely on the RUC whose information was both one-sided and inadequate and it had not been considered advisable to establish an independent intelligence organisation. Steps had however now been taken to improve both the RUC's and our own sources of information.

In general, Press and public reactions to the measures which had been taken had been favourable; and the Opposition had not sought to exploit the Government's difficulties. Reactions abroad had also been favourable, and the visit of Miss Bernadette Devlin, MP, to the United States had on the whole been a failure.

THE PRIME MINISTER, summing up the discussion, said that the meeting of 19th August with the Northern Ireland Prime Minister and the Home Secretary's subsequent visit to Northern Ireland had achieved the substance of the objectives laid down by the Cabinet. Measures had been set in train to deal with the most urgent problems. The action taken had been well received by public opinion, and would reflect credit on the Government. We had bought time in which to work out a long-term solution. This might be a long time in coming, and it was unlikely to be achieved within the lifetime of the present Parliament. Meanwhile we should avoid being rushed; and in particular there should be no premature withdrawal of the troops.

The Cabinet -

Took note of the Prime Minister's summing up and of the points made in discussion.

Cabinet Office, S. W. 1.

5th September, 1969

---
THE HOME SECRETARY said that although he was less pessimistic about the outlook than he had been 24 hours earlier, the situation in Northern Ireland was still extremely tense. The tension was unlikely to be diminished by the publication of the Cameron Report on the origins of the disturbances of last January, which would take place on the following day. Arrangements had been made for the Roman Catholic Archbishop of Armagh, Cardinal Conway, to receive a copy of the report in advance of publication, and to have the main features of it explained to him. This would go some way towards dissipating the impression the Cardinal had formed that we were not taking him fully into our confidence. Most of the problems raised in the report were being covered by the various working parties and commissions which had been set up following the London meeting with the Northern Ireland Prime Minister, Major Chichester-Clark, and his own visit to Northern Ireland. In presenting the report to public opinion, emphasis would be laid on the fact that the disorders had taken place nine months ago, and that since then, action had been initiated on a number of the grievances which had caused them; but the task of presentation remained a difficult one. Much of the recent increase in tension was due to the activities of the illegal broadcasting stations which had been set up by both sides: for instance the crowd of 3,000 which had been responsible for the disorders in Belfast on 7th September had been called together by incitements from "Radio Orange". It had not been thought advisable to attempt to close the illegal stations down: but it had now been decided that despite the various legal and ethical objections to such a course, they must be jammed, and this was now being done, though the jamming was not yet fully effective. One difficulty was that the frequencies employed by the illegal stations were very close to that used by a station in the Irish Republic, and there was a risk of protests from the Government of the Republic if there were interference.

-1-
with it: [There was also some ground to suppose that some of the illegal Protestant stations had the support of influential Ulster Unionists.] The situation would be carefully watched, and the broadcasts monitored. There was increasing concern in Northern Ireland at a situation in which political tension was leading to a progressive breakdown in the enforcement of law and order: and it was likely that the Northern Ireland Prime Minister's statement of 9th September on the removal of the barricades - of which the Home Secretary had had only an hour's warning - had been prompted by pressure from the business community rather than from the Ulster Unionist 'hard-liners'. When he had seen the Northern Ireland Minister for Commerce, Mr. Bradford, the Home Secretary had emphasised the need for closer consultation on pronouncements like this which caused serious implications for the troops in Northern Ireland; but the Northern Ireland Government had been under considerable political pressure to show that they were still in control of affairs and he did not want to add to their difficulties. Over the past few days he had had a number of contacts with the

The Home Secretary would that afternoon be receiving a deputation consisting of Mr. Fitt and other influential Roman Catholics, including Father Padraic Murphy, a parish priest from the Falls Road area of Belfast. He hoped that the deputation would come out publicly with a statement urging the removal of the barricades, if necessary over a period and if necessary under the protection of the Army. This would do a great deal to improve the atmosphere. So far as the Northern Ireland Government was concerned, the Northern Ireland Prime Minister's statement of 9th September had been a gamble; but it was satisfactory that he (and now the Minister of Commerce) had staked his political future firmly on the continuance of reform. Major Chichester-Clark was still hesitating about the appointment, foreshadowed in the communiqué issued on 29th August, of a Minister for Community Relations, but we were keeping up the pressure on this. It was difficult to give a firm forecast of progress. But most of the working parties would have completed their reports by the end of September. Lord Hunt's enquiry into the police forces would probably be completed about 6th October, though he proposed that its results should not be published until he himself visited Northern Ireland a few days later, when he would be in a position to say something about the views and intentions of the British Government. The necessary legislation by the Northern Ireland Parliament might be passed by the end of the year.
There would clearly have to be a debate on Northern Ireland at Westminster when Parliament reassembled. The most suitable time for this might be after the publication of the various reports and after his own visit to Ulster. He had been considering whether, as a long-term measure, it would be possible to relieve the Army of the burden of police duties, for which they were not equipped or trained, by bringing in substantial police contingents from Great Britain. This would require legislation in the United Kingdom Parliament, and one possibility might be for the Northern Ireland debate to be held on this. Although it was impossible to forecast the future course of events with any accuracy, it was clear that the whole Irish problem was once more on the move and that there would be pressure for fundamental changes going far beyond what was at present contemplated. In these circumstances, it was important to get a dialogue going with the Government of the Irish Republic after the reports had been published, he himself had paid a second visit to Northern Ireland and a debate had been held at Westminster. The attitude of the Prime Minister of the Irish Republic, Mr. Lynch, had not been helpful or easy to assess. Though he had specifically renounced the use of force, he had sent troops to the border; and he had embarked on a world-wide propaganda campaign against the United Kingdom and Northern Ireland Governments. If he really wanted a united Ireland, he must conciliate Protestant opinion; but so far his tactics had done nothing but alarm it. Nevertheless, if there were to be any prospect of a final solution, relations between the North and South of Ireland, and between the South and the United Kingdom must be lifted to a different plane. As things stood at present this was likely to take a long time.

In conclusion, the Home Secretary paid tribute to the manner in which the Army had discharged an arduous and ungrateful task. He expressed his gratitude for the support he had received from his colleagues, and in particular for the help they had given him in the provision of staff for the various working parties and commissions. He would have to ask for the present provisional arrangements to be continued for some time to come, and he hoped that his colleagues would bear with him in this; but it would probably be possible to regularise the position after the end of October.

THE DEFENCE SECRETARY said that with eight battalions in Northern Ireland and two in reserve, we had reached the limit of availability of troops uncommitted to the North Atlantic Treaty Organisation. Further reinforcements could of course be made available if need be under the procedures agreed with the Supreme Allied Commander, Europe; and he fully appreciated the necessity especially from the point of view of maintaining the confidence of the Roman Catholics, of providing whatever forces were required. He must however give warning that the forces at our disposal were not
inexhaustible. The calling-in of the arms of the 'B' Specials had gone reasonably well in Belfast and Londonderry, but less well in the country. The present arrangements might have to be changed; and this might lead to an increase in tension.

In discussion general agreement was expressed with the Home Secretary's analysis of the situation. The Cabinet agreed that it might lead to a considerable slackening in tension if the Roman Catholic deputation to be received by the Home Secretary that day could be induced to make a statement on the lines he had proposed. While the Army's image as an impartial authority had been a major asset in the early stages, Protestant confidence in the Army's objectivity had been shaken by recent events and by misrepresentations in illegal broadcasts, and there was now a danger of some degree of polarisation, with the Protestants placing their reliance on the Royal Ulster Constabulary (RUC) and the Roman Catholics putting their trust in the Army. This might lead to distrust and tension between the police and the Army; and the tone of the recent RUC statement on the use by the Army of CS gas in Belfast on 7th September suggested that this might already be happening. It would be useful if the General Officer Commanding, Northern Ireland, could come to London and give his appreciation of the military situation to the Ministers most closely concerned. There was general approval of the Home Secretary's suggestion that

Though the tension in Northern Ireland was not necessarily entirely religious in origin, the Churches were clearly a key factor; and the Cabinet welcomed the efforts which had been made to take them into our confidence. Reporting by the Press and other information media had not always been strictly objective, and a watch should be kept on this: in particular, an eye should be kept on commercial television in Ulster, which was under Ulster Unionist control. Although the Northern Ireland Prime Minister and several of his colleagues had committed themselves firmly to the cause of reform, the Government was in danger from both left and right, and the possibility could not be excluded of its losing control of the situation. In that event the United Kingdom Government might have to assume direct responsibility. If this contingency arose, it would be better both presentationally and politically if the United Kingdom Government were to take over at the request of the Northern Ireland Government rather than on its own initiative. A crisis might arise at very short notice, and the arrangements for the introduction of direct rule should be reviewed and if necessary brought up to date.

THE PRIME MINISTER, summing up the discussion, said that the Home Secretary had made it abundantly clear that the situation in Northern Ireland was still extremely grave. He invited the Home Secretary to give a further full report to his
colleagues at their next meeting; and he warned the Cabinet that they might have to be recalled earlier than was at present contemplated if there were any marked deterioration in the situation. The arrangements for transition to direct rule should be re-examined by officials with a view to a discussion in the Ministerial Group on Northern Ireland. Officials should give further consideration to the long-term possibilities to which the Home Secretary had referred and in particular to that of placing relations with the Irish Republic on a better and more constructive footing. They should also examine our diplomatic posture and the international implications of the Northern Ireland situation in terms not only of the Irish proposal, to which the Foreign and Commonwealth Secretary had referred earlier, for the inscription of the Northern Ireland situation on the agenda of the forthcoming meeting of the General Assembly of the United Nations, but in terms of our bilateral relations with Commonwealth and foreign countries.

In view of the gravity of the Northern Ireland situation and the potentially serious consequences, both internal and international, of any indiscretions, members of the Government would have to exercise particular care to avoid making any public pronouncement which might be exploited to the Government’s detriment or to increase tension. He would circulate a warning to Ministers not in the Cabinet and to junior Ministers on this point.

The Cabinet -

(1) Took note of the statements by the Home Secretary and Defence Secretary, and of the points made in discussion.

(2) Took note with approval of the Prime Minister’s summing up of their discussion.

Cabinet Office, S.W.1.

12th September, 1969

-5-
Tuesday, 16th September, 1969, at 11.00 a.m.

The Prime Minister said that on the previous evening he, the Home Secretary and the Defence Secretary had met with the General Officer Commanding (GOC), Northern Ireland, General Sir Ian Freeland, and Mr. Oliver Wright, the United Kingdom Government's special representative in Northern Ireland, General Freeland and Mr. Wright had given the meeting their appreciation of the situation, which showed that the position was still a very serious one. This had been followed by a discussion of the situation arising from the issue by the extremist committee which was in de facto control of the Catholic enclaves in Belfast and Londonderry of a statement in connection with the removal of the barricades which linked this to far-reaching political demands and affirmed that the extremists were prepared to negotiate only with the Army and not with the Government of Northern Ireland.

During the meeting the Government of Northern Ireland had informed us of their intention to issue immediately a statement which would set a time limit for the removal of the barricades by agreement, failing which they would be removed by force. The Northern Ireland Prime Minister, Major Chichester-Clark, was clearly under pressure from his right wing. If he failed to make a firm statement on the removal of the barricades, or was inhibited from doing so by us, there was a danger that a large section of his supporters would be alienated and join the "Protestant backlash" which had recently become evident, and that there might be resignations from his Government which would threaten its survival. At one point it had seemed possible that the Prime Minister himself or the Government collectively might resign. In that event, it was unlikely that any alternative Government could be formed with which we could co-operate. It might not be possible to form a government at all, in which case we should have no choice but to assume direct responsibility for the government of Northern Ireland. It might be necessary in the last resort to use force. On the other hand, a threat, explicit or implicit, to use it committed the United Kingdom Government, which would have to provide the force. The use of force would have the gravest implications, and the GOC, Northern Ireland, had expressed
strong misgivings about the consequences of our becoming involved, as we well might be, in an urban guerrilla war. It seemed advisable to bring pressure to bear on the Northern Ireland Government to omit from their statement any reference to a time limit or to the use of force, and to hold the situation so far as they were concerned by saying - and allowing them, if they wished, to say - that General Freeland had been authorised to discuss with the Government of Northern Ireland the nature of the action involved in dismantling the barricades and the manner in which this would be done. In such discussions the GOC was not to commit himself to any precise timetable. If there were any question of the use of force he was to refer back for instructions, which would have to be considered collectively by Ministers. In the event the Northern Ireland Government had agreed to issue a statement on lines acceptable to us. This had been followed by a television interview given by the Home Secretary in which Mr. Callaghan had emphasised that there could be no question of entering into a political negotiation in the context of the removal of the barricades. This was a security problem which the GOC was empowered to discuss; but he was not empowered to discuss with self-appointed bodies political issues which were properly the concern of the Government of Northern Ireland, which had already put forward through the appropriate constitutional channels its proposals for dealing with the majority of the problems involved. Meanwhile, negotiations on the spot for the removal of the barricades continued.

**THE DEFENCE SECRETARY** said that Londonderry was relatively calm, but that the situation in Belfast remained very tense. The troops were subjected to constant vilification by extremist Protestant elements: but by the standards which applied to active service the strain on them was not excessive, and the GOC was not worried about morale. With the arrival that day of a further battalion in Belfast (making six battalions in all in that area) the GOC felt that he would be able to contain the situation, provided that there was no major deterioration. He intended to pay a short visit to Northern Ireland himself on 18th September.

**THE MINISTER OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS** said that the Irish proposal for the inscription on the agenda of the General Assembly of the United Nations would be considered by the General Committee of the United Nations on 17th September. We had been lobbying with some success, and the prospects for an adverse vote were quite favourable, but promises of support obtained in capitals did not always result in votes in the desired sense by delegates. Even if the Irish proposal were rejected by the General Committee the matter could be raised afresh in the General Assembly itself. If this happened
and if the proposal for inscription succeeded, the United Kingdom Permanent Representative to the United Nations, Lord Caradon, had been instructed to press for the matter to be referred to the Human Rights Commission where it could be argued that it would be out of order to discuss the political aspects of the question.

In discussion there was general approval of the action taken by Ministers arising out of the meeting on 15th September. The point was made that we should not recoil from political demands as such. What was at issue was the manner in which these were made. They could not be channelled through the GOC who was concerned solely with security, but should be dealt with through the Northern Ireland Government which in many instances had already initiated action on the alleged points of grievance. It would be necessary to keep up the pressure in Stormont. Full use should be made of the good offices of moderates on both sides and in particular of responsible churchmen. In this connection it was noted that the Catholic hierarchy were already in touch with the leader of the committee running the Catholic barricaded areas in Belfast and Londonderry, a Mr. Sullivan, with a view to inducing him to adopt a more reasonable attitude. Consideration was given to the position which might arise if the present Northern Ireland Prime Minister were forced into resignation. If the present Minister of Development, Mr. Faulkner, were able to form a government, he would probably continue in the main with present policies and we should be able to co-operate with him. A government headed by the former Minister of Home Affairs, Mr. Craig, would however present an entirely different situation, and we could not allow ourselves to be forced into the position of supporting an administration of extreme and uncompromising right-wingers. It had to be borne in mind that it might prove impossible to form a viable Northern Ireland government at all. Emergency legislation to deal with this contingency had been prepared, and had recently been reviewed, as had the general constitutional position. It was true that there had been some weakening in confidence in the Army as an impartial force as between Protestants and Catholics, in particular among the former. The use by the Army on a very small scale of CS gas against a Protestant crowd had produced a much more violent reaction than the expenditure of CS gas on a much larger scale by the Royal Ulster Constabulary against Catholics at an earlier stage. But accusations, however unsubstantiated, that the Army had a pro-Catholic bias were probably inevitable in a situation where the Catholics were on the whole on the defensive: where Army intervention had in the main been with a view to their protection; and where reforms, mostly pro-Catholic in effect, which had been delayed for 50 years had to be rushed through in a few months.
The Cabinet -

Took note of the statements by the Prime Minister, the Defence Secretary and the Minister of State for Foreign and Commonwealth Affairs and of the points made in discussion.

Cabinet Office, S.W.1.

16th September, 1969
The Cabinet considered statements by the Home Secretary and the Defence Secretary about the report to the Northern Ireland Government of Lord Hunt's Advisory Board on the future of the Royal Ulster Constabulary (RUC) and the Ulster Special Constabulary (USC); and a memorandum by the Home Secretary (C(69)131) dealing with the proposals of the three working parties and the economic mission which he had initiated on his visit to Northern Ireland in August.

THE HOME SECRETARY said that the Government could applaud the principal recommendations of Lord Hunt's report. These were that the RUC should be stripped of its para-military functions and concentrate on normal policing; a police authority, on the Great Britain pattern, should be interposed between the force and the Northern Ireland Government; HM Inspectors of Constabulary should inspect the force at regular intervals; arms should not normally be carried; the uniform should be redesigned and be blue instead of black; the establishment should be much enlarged; means should be found of recruiting more Roman Catholics; there should be interchange with police forces in Great Britain; and links should be formed with police institutions in Great Britain.

The Home Secretary said that he had a Chief Constable of a force in Great Britain ready to take charge; and the aim should be to have this officer in post simultaneously with the publication of the report and the announcement of the decisions on it. He was seeking a suitable Roman Catholic for appointment to the post of Deputy Inspector General, but it was proving difficult to find a volunteer.
Legislation would be necessary either in the overspill period or early next Session to implement the arrangements for the transfer and secondment of Great Britain police. He hoped that he could persuade the Northern Ireland Government to acquiesce in all these proposals for the RUC.

The proposals relating to the USC (the 'B' Specials), were more difficult; and he and the Defence Secretary shared reservations about them. The Hunt Report proposed that the USC should be disbanded and that their former functions should be undertaken by two new bodies: a special constabulary, on the Great Britain pattern, of unpaid, unarmed volunteers under police control, which would relieve the RUC of routine duties such as traffic control; and a part-time, locally recruited, paid and armed defence force, rather like the wartime Local Defence Volunteers, to guard the border and key installations, who would receive military training from the British Army and would be under the control of the General Officer Commanding (GOC), acting in consultation with the Northern Ireland Government. Lord Hunt's Advisory Board thought that the political repercussions of disbanding the USC would be less severe if it was replaced by such a force; some of the more suitable of its ex-members might be absorbed into the new force and the creation of the force would reduce the risk of the USC going underground. Even so, there was some risk of an adverse Protestant reaction, although it was perhaps not as grave as Mr. Quinan Hogg had suggested to him it might be.

The most difficult problem in this part of the proposals was how and to what extent the Northern Ireland Government should share in the control of the new defence force. They had made it clear that they wanted to play a larger part than Lord Hunt had envisaged, whereby the GOC would exercise his command in close consultation with them through the medium of a Security Committee under the chairmanship of the Minister of Home Affairs. He recognised the special difficulty for the Northern Ireland Government in accepting this element in the proposals; and it would clearly be much easier to persuade Protestant opinion to accept the disbandment of the USC if the package included a good measure of control of the new force by Stormont; but it would not be possible to go beyond an arrangement for the GOC to consult with the Northern Ireland Government on any matters of the force's size and deployment, where their local knowledge would obviously be helpful. The matter was so delicate that Lord Hunt and his colleagues had not been able to reach a fully worked out solution and it would therefore fall to him, keeping in touch with the Defence Secretary, to do this during his forthcoming talks with the Stormont Government. The disbandment of the USC and the establishment of the new local defence force under the control of the GOC and the
Ministry of Defence were integral parts of the package of reforms, which were the minimum that we should require. He believed that he would be able to persuade the Northern Ireland Government of this but he would need the Cabinet's authority for a measure of discretion in his talks.

THE DEFENCE SECRETARY said that he found the Hunt Report's recommendations for the RUC itself admirable. He agreed that the USC should be abolished in its present form and he accepted that there was a case for a military force to undertake the tasks which they had performed in the border areas. It would not be possible for the regular forces to shoulder this burden themselves, and, even if they had the manpower, there were other objections to their becoming involved in it. He accepted, therefore, that there would have to be a separate new military force. To be adequate, the new force would need a strength nearer 5,000 than the 4,000 proposed by the Hunt Report; and it would need about 250 British officers and NCOs in its command structure. Their task would be similar to that which the Army and the USC had had to perform in blocking the frontier during the Irish Republican Army (IRA) insurgencies of the 1950s. The nature of this task would require the force to be raised in mainly rural areas and to be provided with arms which they would keep at home. He saw no serious objection to this. The force should not be part of the existing Reserve Army but rather should be analogous to the Home Guard, with a flavour more of the original Local Defence Volunteers. The Home Guard legislation, which was still on the Statute Book, would provide a convenient model for a separate comprehensive Bill - to be passed by the United Kingdom Parliament - to cover the new force, which would be preferable to attempting to make provision for it by amendments to Reserve Army legislation. He would wish to be sure that adequate arrangements would be made to offset the extra £1 million cost of the force to the Defence budget. Like the Home Secretary, he recognised that these proposals raised a political dilemma. To make the new force acceptable to Roman Catholic opinion, it would have to be clearly under the control of the Westminster Government and firmly linked to the Army. On the other hand, to avoid a serious Protestant reaction, the Stormont Government would somehow have to be involved in its management. He was content to leave it to the Home Secretary to obtain the best terms of agreement he could with the Northern Ireland Government, so long as ultimate control of the force lay with the GOC responsible to the Ministry of Defence.

In discussion it was argued that no hasty decision should be made on the proposed new defence force. Several major questions needed to be answered. How could it be ensured that the force would contain a reasonable balance of Protestants and Roman Catholics? If the force were dominated by Protestants - as seemed
likely, and, indeed, perhaps necessary if it were to defend the border with resolution - how would the Irish Republic react to it, and how could Roman Catholic opinion in the North be persuaded of its advantages over the USC? It was not sufficient to compare it favourably with the USC, because the USC was a relic of the past which was widely recognised as offensive and which the Government now had to remove. We should be most circumspect about creating, at this stage of Northern Ireland’s history, a new special military force, even though it admittedly would be better than what it replaced.

On the other hand, it was pointed out that the Government had only a choice of evils before them. There were undoubtedly serious objections to the proposed new defence force; but it would be a substantial improvement on the USC. It would be only half as large; it would be located away from the urban areas of tension; and it would be directly under Army command and not indirectly and ineffectively controlled through the RUC. The issue of the minimum necessary arms to them had to be viewed against the background of the hundreds of thousands of small arms privately held in Ulster, many of them by the USC themselves. But the decisive consideration was that there was no satisfactory alternative. The Army would need five further battalions to undertake the duties envisaged for the defence force. These would be additional to the extra garrison that would be required in the long term for the Army to fulfil its role of assisting the civil power and backing the defence of the frontier. The Army’s other commitments would not allow it to provide a force totalling the 11 battalions which would be needed. In the long run it was to be hoped that the defence force would wither away when it had served its purpose.

In further discussion there was general agreement that the Northern Ireland Government should not have as large a say in the control of the force as Lord Hunt proposed, lest it should in effect become simply a reincarnation of the USC.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet welcomed the proposals of Lord Hunt’s Advisory Board for bringing the Ulster police system as closely as possible into line with that in Great Britain; and they agreed with the Home Secretary’s proposals for the publication of the report, the announcement of decisions on it and the appointment of the new Inspector-General. They agreed also that he should bring in a Bill to make possible the transfer and secondment of police from forces in Great Britain to the RUC. They agreed with the proposal to abolish the USC; but they shared the unease of the Home and Defence Secretaries about the proposed defence force, to which there were several cogent objections. But they accepted that there was no satisfactory alternative way of providing for the
long-term protection of the border and of key installations, given that the British Army could not undertake the entire burden. Furthermore, the force would be a necessary political counterweight to the abolition of the USC; if nothing were put in its place, it might not be possible to contain the reaction by the Protestants to the abolition of the force on which they pinned such reliance. So long as the essential condition that the GOC, and through him the Westminster Government, controlled the new force was met, the Cabinet reluctantly accepted that it was the best solution in a most delicate and intractable situation. The Hunt Report had not given a definitive answer to the problem how to associate the Northern Ireland Government with the management of the new force in order to secure their co-operation. The Home Secretary, in consultation with the Defence Secretary, should have discretion for this purpose in working out an acceptable arrangement, subject to ensuring that the ultimate control of the force was safeguarded in the manner which the Cabinet considered essential.

The Cabinet -

(1) Took note, with approval, of the Prime Minister's summing up of this part of their discussion.

(2) Invited the Home Secretary to proceed with the arrangements for introducing the reforms of the RUC as agreed in discussion, and to bring in a Bill to provide for the transfer and secondment of Great Britain police.

(3) Invited the Home Secretary, in consultation with the Defence Secretary, to secure the best practicable arrangements for control of the new defence force, subject to the essential requirements agreed in discussion, and to report to the Cabinet.

(4) Invited the Defence Secretary, in consultation with the Home Secretary, to consider urgently the necessary legislative provision in the United Kingdom Parliament for establishing the new defence force.
THE HOME SECRETARY said that the two Governments had received reports from the three Working Parties and the economic mission of officials which he had initiated on his visit to Ulster in August. The three Working Parties had examined the extent to which the Northern Ireland Government's present practice or pledged commitments adequately ensured the promotion of good community relations by methods including the prohibition of incitement to religious hatred; the avoidance of any discrimination in any form of public employment; and the fair allocation of houses by public authorities. The economic mission had assessed the economic and industrial prospects in Northern Ireland in the light of recent events. He proposed in his forthcoming visit to discuss what action should follow from these reports. The conclusions of the Working Parties on community relations and on the avoidance of discrimination in public employment were comprehensive and acceptable; but he considered that the proposals of the Working Party on housing allocation - that reliance should be placed on the new allocation schemes and on the Commissioner for Complaints as a long stop - would not go far enough to satisfy the Roman Catholic minority that there was no discrimination. He advocated transferring all public authority housing to the Northern Ireland Housing Trust, which had a reputation for impartiality. It owned 40,000 houses (in comparison with the local authorities, which owned 76,000) and its organisation could be expanded to undertake this extra task. He did not think that even the proposed new enlarged local authorities in Northern Ireland could be relied upon to administer housing without discrimination; and he could see no grounds why housing, any more than education, should not be administered as a central service for the whole Province. He was well aware that his proposal would arouse opposition and that it would leave the local authorities with limited functions; but this was a price which would have to be paid to ensure that the housing problem was properly dealt with.

The economic mission's report was encouraging for the short term; but it carried a warning that the longer term effects were potentially very serious. In the light of their report, the Northern Ireland Government proposed immediate measures to reassure investors about compensation for future riot damage and to restore relative levels of inducement; and they proposed that a £2 million programme of labour intensive works, directed in particular at the peak unemployment areas of the west, should be undertaken. He doubted whether these proposals would be sufficient to solve the unemployment problem or to ensure an acceptable future rate of economic progress; but he invited the Cabinet to agree to them in principle so that he could base his forthcoming discussions upon them.
In discussion there was general agreement with the Home Secretary's attitude to the reports and to his proposals for acting upon them. It was pointed out however that his proposals for public authority housing would make this a 100 per cent charge on the Exchequer. There would also have to be financial discussions between the Treasury and the Northern Ireland Ministry of Finance on the proposal to increase by £1 million the special capital programme.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet endorsed the Home Secretary's views on the reports of the three Working Parties and the economic mission. They authorised him to discuss action on them accordingly with the Northern Ireland Government during his forthcoming visit, subject to a full examination of the financial considerations mentioned in discussion.

The Cabinet -

(5) Invited the Home Secretary to proceed as proposed in C(69) 131, subject to full consultations as appropriate on the financial points.

Cabinet Office, S.W.1.

9th October, 1969
The circulation of this paper has been strictly limited.
It is issued for the personal use of Sir Burke Franks, President.

TOP SECRET

Copy No.

CABINET

CONFIDENTIAL ANNEX

CC(69) 48th Conclusions, Minute 2

Tuesday, 14th October, 1969 at 10.30 a.m.

THE HOME SECRETARY, reporting on his visit to Northern Ireland, said that a full account of his discussions with the Northern Ireland Government was given in the communique issued on 10th October, copies of which he had circulated to the Cabinet with C(69) 139. He was convinced that the Northern Ireland Government would do their best to push the reforms through, because they recognised that they could not go back, and they believed that they could hold their Party together. But he confessed to an inner concern and it remained to be seen whether the disturbances would build up to a new peak or gradually die away; the previous night had been fairly quiet. He was however sure that there would have been real trouble had the Cabinet not decided to institute a new local defence force to replace the Ulster Special Constabulary (USC); it was very likely that the USC would have gone underground. As regards the Royal Ulster Constabulary (RUC), his impression was that the change to a civilian police role was generally welcome, even among senior officers; and he believed that the RUC would be prepared, if need be, to act against the USC. The new Inspector-General, Sir Arthur Young, was off to a good start; and as soon as he was well established they should review the arrangements whereby the police came under control of the General Officer Commanding (GOC), with a view to giving the Inspector-General more freedom of action. His opinion should also be given full weight in deciding when it was safe to withdraw troops from the various areas.

THE DEFENCE SECRETARY said that in his judgment troops were likely to be required in Northern Ireland for a considerable period; little confidence would be placed in the local forces by Catholics until they were seen to be working efficiently and fairly, particularly in the matter of promotion, and that might take until the end of next year. He agreed that the relationship between the RUC and the GOC should be reviewed; indeed there was a need to look again at the arrangements which had been improvised and to
improve communications between the two Governments and the advisers stationed at Stormont and with the GOC. Intelligence of feeling among Protestants was still poor, though it was improving; but the Shankill Road riots showed signs of organisation and he had little doubt that some members of the USC were involved. The risk that organised elements of the USC would go underground had formed a large part of the case for establishing the proposed new local defence force; and he hoped that it might be possible to set this up at the beginning of the New Year, though ideas had still to be clarified. Legislation of the United Kingdom Parliament would be required; and he thought that this should be announced in The Queen's Speech.

In discussion there was general appreciation of the skill shown by the Home Secretary in negotiating with the Northern Ireland Government, which had done much to allay fears expressed by some members of the Cabinet during the previous discussion. Every effort should be made to settle policy on the new local defence force before the Debate on the Address. The aim should be to introduce legislation for this purpose and to facilitate the transfer and secondment of Great Britain police during November; the Opposition were not likely to obstruct its passage.

THE PRIME MINISTER, summing up the discussion, said that he wished on behalf of the Cabinet to congratulate the Home Secretary on his success in achieving the objectives on which they had agreed during the discussion on 7th October. The Home and Defence Secretaries should consider urgently, in consultation with the Lord President, what provisions needed to be included in the proposed legislation and should report back to the Cabinet.

The Cabinet -

(1) Took note, with approval, of the Prime Minister's summing up of their discussion.

(2) Invited the Home and Defence Secretaries, in consultation with the Lord President of the Council, to consider urgently the content of the proposed legislation and to report to the Cabinet.

Cabinet Office, S. W.1.
14th October, 1969

-2-
improve communications between the two Governments and the
advisers stationed at Stormont and with the GOC. Intelligence of
feeling among Protestants was still poor, though it was improving;
but the Shankill Road riots showed signs of organisation and he had
little doubt that some members of the USC were involved. The risk
that organised elements of the USC would go underground had formed
a large part of the case for establishing the proposed new local
defence force; and he hoped that it might be possible to set this up
at the beginning of the New Year, though ideas had still to be
clarified. Legislation of the United Kingdom Parliament would be
required; and he thought that this should be announced in
The Queen's Speech.

In discussion there was general appreciation of the skill
shown by the Home Secretary in negotiating with the Northern
Ireland Government, which had done much to allay fears expressed
by some members of the Cabinet during the previous discussion.
Every effort should be made to settle policy on the new local defence
force before the Debate on the Address. The aim should be to
introduce legislation for this purpose and to facilitate the transfer
and secondment of Great Britain police during November; the
Opposition were not likely to obstruct its passage.

THE PRIME MINISTER, summing up the discussion, said
that he wished on behalf of the Cabinet to congratulate the
Home Secretary on his success in achieving the objectives on which
they had agreed during the discussion on 7th October. The Home
and Defence Secretaries should consider urgently, in consultation
with the Lord President, what provisions needed to be included in
the proposed legislation and should report back to the Cabinet.

The Cabinet -

(1) Took note, with approval, of the Prime
Minister's summing up of their
discussion.

(2) Invited the Home and Defence Secretaries,
in consultation with the Lord President
of the Council, to consider urgently the
content of the proposed legislation and to
report to the Cabinet.

Cabinet Office, S.W.1.
14th October, 1969
This note records a part of the discussion by the Cabinet, which is not included in the circulated record, of the note by the Secretary of the Cabinet (C(67) 61) on the effects of entry into the European Economic Community (EEC) on the United Kingdom balance of payments.

It was argued that it was a major premise of the memorandum before the Cabinet that we should not enter the EEC unless our economy was fully competitive, with a relatively good level of efficiency - wages and a surplus on the balance of payments sufficient to enable us to take the strains of entry. But we were still some way from such a condition; and if we were to enter in any weaker state, the consequences would be grave. In furtherance of our existing balance of payments objectives, it had already been necessary first to arrest, and now to continue to restrain, the rate of growth of the economy; to maintain an undesirably high level of unemployment; and to curtail desirable social expenditure. If we were to enter the EEC, the substantially adverse effects on our balance of payments would add to these present difficulties. It would not be acceptable, however, to meet this additional burden simply by intensifying present deflationary policies with their unpalatable economic and social consequences; and it would therefore be necessary to consider major policy changes. There were two main possibilities - first, a major change in foreign policy which would permit cuts in defence expenditure overseas greater than those now in contemplation (a course which would be entirely consistent with entry into the EEC); second, a change in the parity of sterling. In particular, without some degree of devaluation we were unlikely to secure the further shift of resources into exports and import substitution, over and above that necessary to resolve our present difficulties, which would be required to mitigate the adverse effects of entry on the balance of payments. But a decision to devalue sterling could be discussed only by a very small number of Ministers; and both the discussion and the decision would have not only to remain secret but, if necessary, to be denied until the decision had been announced. It was therefore right that there should be some discussion of devaluation before any decision was taken which might, as a consequence, lead to circumstances in which devaluation could not be ruled out.

THE PRIME MINISTER said that the points which had been raised were relevant in the present context. Nevertheless, the Cabinet would appreciate that there were great dangers in any discussion of a change in the parity, as was shown by the experiences of last July when a grave run on sterling had resulted from a popular belief that the Government had an adjustment of the parity under consideration. It must always be open to any Chancellor of the Exchequer to consider
devaluation at the proper time and in full secrecy. In the context of entry to the Community, however, there would probably be strong resistance in France to a British devaluation. During the visit which he and the Foreign Secretary had recently paid to Paris M. Pompidou had disclaimed the sentiments attributed to him last July and had specifically stated that we had been right not to devalue at that time. Whilst devaluation remained an option which was open to us, it was not a one-way option; it could have economic consequences no less unpleasant than those of deflation. The Cabinet might wish to discuss the subject further from this point of view. But it would be imperative that any such discussion should remain strictly secret and should not be imparted to any other individual, whether Ministerial, official or advisory.

THE CHANCELLOR OF THE EXCHEQUER said he agreed that it was right that he should give the Cabinet his views on this question in the strictest secrecy. He was bound to say at the outset that devaluation was not an option which was open to him personally - he had given too many pledges to holders of sterling for that. Nevertheless, it must be recognised that devaluation remained both an option open to us and a course which might be forced upon us. It would, however, present us with fundamental difficulties, of which the most important was the problem of choosing the right rate to which to devalue. Too small a devaluation would lead to the expectation of further similar measures and so to renewed speculation. It would also confer no sufficient advantage, e.g. in terms of import deterrents and export incentives. On the other hand, too great a devaluation would invite other countries to follow our lead not only in order to stay on comparatively favourable competitive terms with us but perhaps also in certain cases for retaliatory reasons stemming from ulterior motives in the international monetary field - the French hostility to the dollar as the main reserve currency was a case in point. The choice of rate would therefore be a very delicate one. If we chose the right rate, our import prices would not rise to the full extent of the devaluation, because some of our sterling area suppliers, for example, would devalue pari passu with us. Nor would our export prices fall in real terms by the full extent of the change in parity, because some of our exporters would take the opportunity to increase their profit margins whilst maintaining or increasing their volume of sales. In general, however, it could be assumed that, while devaluation would cause substantial short-term damage to the balance of payments, its long-term impact should be much more than offset by the expansion of exports and the contraction of imports which it should stimulate. A final assessment of the total effect, however, was very difficult to frame because of the problems of quantification which had been underlined in another context during the present discussions. Nevertheless, a tentative analysis of the overall effects had been made in the light of the experience of the French devaluations of 1957 and 1959, on the basis of the most favourable assumptions which could be made as to the choice of rate and other factors. On that basis the best estimate was that in the first year after a
devaluation we could reasonably aim at an improvement of at least £300 million in our balance of payments. This, with the further improvements which might be expected in later years, should offset any damage to our balance of payments which might result from our entry into the Community. At the same time, since the initial damage to the balance of payments that would be caused by devaluation was also put at about £300 million, the total shift of resources that would be required in the first year would be some £600 million. Part of this diversion of resources would be achieved by the deflationary effect of higher import prices, which would, of course, entail a higher cost of living. But it would also be necessary to impose additional taxes to the extent required to ensure that sufficient resources were available to meet the improvement in our exports which the devaluation would make possible. The amount of this additional taxation was put at about £400 million. These calculations assumed that we should maintain a rate of unemployment of the order of 1.8 per cent, i.e. somewhat less than we now had. In short, we should need to divert at least £600 million of resources from domestic use to exports; and additional taxation of perhaps £400 million would have to be raised in the first year. The resulting austerities would therefore be additional to those which we were suffering at present.

It was also necessary to take into account the external effects of devaluation. First, there would be the effects of imitation of, and retaliation against, our devaluation of which he had already spoken. There would also be a loss of confidence by the holders of sterling, who would inevitably draw down their balances if we devalued. There would be a further reaction upon confidence in the dollar, opening up the possibility of a flight into gold and a consequential reduction in world liquidity, which in turn would react upon our export markets. The device of a floating rate which had been put forward as a way out of these difficulties was not a solution. It would not be attractive to holders of sterling, who would be bound to take the view that we had allowed the rate to float in order that it should float downwards rather than upwards; and this assumption would create the conditions in which the rate would be bound to fall progressively. In sum the external consequences might well lead to a return of those disorders in world trade and payments which the International Monetary Fund had been established to counter; and they would inevitably result in a period of considerable confusion before international stability was eventually restored.

The alternative was to follow a policy designed to overcome the internal disabilities from which our economy had been suffering. We were now set on this course, which would not be easy to follow but would nevertheless be within our capacity, as recent discussions had confirmed. It followed that, whilst a theoretical case could be constructed in favour of devaluation at the point when we entered the EEC, it would unleash such powerful adverse forces beyond our control and would involve a breach of so many pledges which he had given to holders of sterling that he could not remain Chancellor of the Exchequer if this course were adopted.
In discussion it was asked why, if the consequences of devaluation would be so unfavourable for us, the French appeared to have benefited from it. In reply it was pointed out that the French (who had had to devalue twice) had had no problem of franc balances on the scale of the sterling balances. Moreover, their devaluations had been accompanied by price increases and compulsory wage stabilisation (estimated to have produced an 8 per cent reduction in real wages), which had been made possible only by the personal authority of General de Gaulle and the weakness of the French Parliament. It did not seem politically feasible that, e.g. Part IV of the Prices and Incomes Act, should be reintroduced and reinforced not only in order to hold down incomes but also to effect a substantial reduction in them.

It was also asked whether the improvement in the balance of payments which devaluation might be expected to secure in, say, the third year would not offset the disadvantages which it was estimated would be caused in the first year. In reply it was stated that it was not possible to make an effective quantification of these advantages because of the uncertainties of assumptions about such factors as the elasticity of demand for exports and imports. In the third year the balance of payments should certainly show an improvement; but to reach that point the Government would first have to survive the initial impact.

In further discussion, it was suggested that devaluation was irrelevant to consideration of our entry into the EEC, since its effects would be concentrated in the short term, whereas the adverse consequences of entry, particularly as regards acceptance of the common agricultural policy would involve a long-term worsening of the terms of trade and a reduction in the standard of living. These long-term effects could not be altered by devaluation. On the other hand it was urged that the adverse consequences of entry might well create conditions where devaluation was forced upon us; and it was therefore right to consider whether we should forestall this situation by devaluation before entry. If we entered the Community without devaluing and subsequently found that we had miscalculated, we might not be allowed, as members of the Community, to devalue our currency. But in that event the only alternative would be severe deflation, which in turn would offset the advantages of economic elan which it was claimed we might secure as a consequence of entry, but only if we were to enter very quickly. As against this, however, it was wrong to interpret the analysis which had been put before the Cabinet as representing devaluation and deflation as alternatives. Devaluation itself would require to be reinforced by sharp deflation. In the context of the time-scale of entry to the EEC the additional shift of resources required to offset the extra strain which entry might place on the balance of payments amounted to no more than 1/2 of 1 per cent of the estimated annual growth rate, starting in about 1970, and thereafter making itself felt only gradually over a transitional period of five years or more, so that the full strain would not be felt until 1975 or later. Meantime, we should have had the opportunity, as full members of the Community, to influence the critical decisions of the EEC on such relevant matters as the
common agricultural policy and the harmonisation of economic policies. Moreover, the savings on defence and foreign policy which were likely to emerge from the forthcoming decisions on the Defence Review should produce substantial savings in foreign exchange by 1975. We should also have discharged our remaining debts to the IMF by 1970. Further, only free access to the larger market of the EEC would give British industry the necessary stimulus for investment and growth, the effects of which would be an increasing force in our favour in the years 1970-75.

THE PRIME MINISTER, summing up this part of the discussion, said it had been right to consider the issue of devaluation in the context of the approach to Europe. Devaluation must always be one of the options open to the Government, whether they entered the EEC or not; and it was always permissible for the Chancellor of the Exchequer to raise this issue in the appropriate way at the right time. There were, however, extremely powerful objections, as outlined by the Chancellor of the Exchequer and in discussion, to devaluation as a way out of our present and prospective difficulties. It was of the highest importance, therefore, that no hint should be given outside the Cabinet that the question of devaluation had been under discussion; if any disclosure were made, the consequences could be extremely grave. The Cabinet should now resume the main theme of their discussion of C(67) 61.