INDEX OF CABINET CONCLUSIONS
March–December 1974
(CC (74) 1st–52nd Meetings)

Notes: References to CC (74) Conclusions are shown thus—1 (1).
References to C (74) Memoranda are shown thus—C 1.
References in italics are to memoranda not discussed by the Cabinet.
SUBJECT INDEX
(CC (74) 1st–52nd Meetings)

AGRICULTURE
See also European Economic Community.
Public expenditure limited to maximum economic expansion C 4, 3 (5).
Annual review C 2.

AIRCRAFT INDUSTRY
See Concorde.
HS 146 AIRCRAFT.
PUBLIC OWNERSHIP.

ANGLO-FRENCH CONTINENTAL SHELF
French request for pilot borings 48 (2).

ARMED FORCES
Talks in Vienna on reduction of forces 19 (2).

ARMED FORCES PAY
See PAY.

ASSISTED AREAS
No current changes in assisted boundary areas C 68, 25 (4).
Immediate changes in some assisted area boundaries and doubling of the Regional Employment Premium C 86, 32 (4).

ATHENS
Visit by Royal Navy cancelled 3 (3).

B

BEAVERBROOK NEWSPAPERS LIMITED
Publication to cease in Scotland at end of March; Ministerial statement to be made 4 (1).
Request for assistance—Government attitude 9 (1).

BEEF
See also European Economic Community.
Arrangements for pensioners to receive cheap beef 31 (3), 33 (4).
New arrangements for beef marketing involving deficiency payments 48 (2).

BILLS
CHANNEL TUNNEL BILL
To be reintroduced following vote against procedural motion 46 (1).

EDUCATION (AWARDS AND GRANTS) BILL
Second Reading 27 (2).

HEALTH AND SAFETY AT WORK, ETC. BILL
Position of the Alkali Inspectorate C 37, 15 (5).
NATIONAL INSURANCE BILL
All stages to be taken in House on 10 April. Feasibility of six monthly upratings to be considered C 8 (1).
Amendments; no six monthly upratings C 26, C 27, 9 (4), 10 (4).

TRADE UNION AND LABOUR RELATIONS ACT 1974
See also INDUSTRIAL RELATIONS ACT.
Bill to amend Act, Trades Union Congress (TUC) proposals conditionally acceptable;
Secretary of State for Employment to report back to Prime Minister C 128, 44 (2),
45 (2).
Revised TUC proposals accepted C 46 (3).
Bill to be introduced C 48 (4).
Anxieties expressed by newspaper editors C 142, 30 (4).

BROADCASTING
Inquiry, under chairmanship of Lord Arran, to be set up C 9 (1).

BUDGET
Chancellor of the Exchequer proposals C 6 (1).
Economic Statement C 28 (1).
Budget C 45 (1).

BUILDING SOCIETIES
Discussions to be held with Building Societies Association (BSA) to hold mortgage rate.
Committee to be set up to examine long-term questions C 20, C 22, 8 (4).
Outcome of BSA talks; terms of bridging loan C 9 (3), 10 (1).
Negotiations with BSA. Proposals on establishment of committee C 45.
Pressure by Building Societies to increase rate C 21 (5).
Mortgage rate likely to be held until the autumn C 25 (3).

CABINET
Observance of Questions of Procedure in regard to public speeches C 12 (1).
Observance of 48-hr. rule C 17 (1).
Cabinet business C 21 (1), 27 (1).
Proposed Sunday Times article on Cabinet Ministers C 35 (4).

CAPITAL PUNISHMENT
See PARLIAMENTARY AFFAIRS.

CHANNEL TUNNEL
See also BILLS.
Future of project to be brought before Cabinet C 4, 3 (5).
Phase 2 of project to continue C 8, C 12, C 16, 7 (5).
Decision on Phase 3 to be postponed; high-speed rail link to be abandoned. Ministerial Committee to be constituted C 135, 48 (3).

CHILE
Policy towards Chile; supply of arms and warships C 7 (1), 9 (5), 10 (6).
Legal issues C 31, C 32, C 36, C 44, 16 (1).
Renegotiation of Chilean debt C 19 (2).
Rescheduling of debt repayments agreed C 63, 24.

CIVIL SERVICE
See DISPERSAL.
NORTHERN IRELAND.
COMMUNITY OWNERSHIP OF DEVELOPMENT LAND
See DEVELOPMENT LAND.

CONCORDE
Future of project to be discussed by Cabinet C 4, 3 (5).
Ministerial Committee to be established to supervise negotiations with French Government;
Officials to examine consequences of cancellation; Law Officers opinion to be given C 10, C 13, C 14, C 15, 5 (5).
Anglo-French consultations delayed due to forthcoming French elections 8 (3).
Future of project after outcome of discussions with the French Government C 46, C 48, C 55, C 51, 17 (8).
Prime Minister's discussion with French Prime Minister 21 (4).
Completion of 16 aircraft provisionally agreed C 72, 26 (2).
Draft notes for exchange with French Government C 129.

CYPRUS
Archbishop Makarios deposed 26 (1).
Illegal régime in control; concern for our Sovereign Base Areas; diplomatic discussions to resolve problem C 4, 27 (4).
Situation Report by Officials; Greek and Turkish Governments agree to a cease-fire C 77, 28 (2).
Tripartite discussions in Geneva; satisfactory outcome of first stage C 31 (1).
Continued diplomatic activity C 35 (1).
No prospect of early progress towards a political settlement C 38 (2).
Foreign Secretary's talks with Vice-President of Cyprus C 40 (2).

DEFENCE
Reductions in defence expenditure. Withdrawal from East of Suez C 4, 3 (5).

DEFENCE REVIEW
Defence expenditure, commitments and capabilities C 116, 41 (3), 42 (1).
Bilateral exchanges with the Americans and Germans; United States request for extension of facilities in Diego Garcia C 116, C 132, 47.
Draft Parliamentary statement approved C 137, 49 (2).

DENTAL CHARGES
No increase C 35 (6).

DEVELOPMENT LAND
Community Ownership—Progress on White Paper C 31 (2).
Report on purchase price and taxation in transitional period; position of owner occupiers.
Draft White Paper approved C 95, C 96, 33 (2).

DEVOLUTION
White Paper on Devolution within the United Kingdom C 57.
Kilbrandon Report: discussion on content on White Paper C 32 (2).
Draft White Paper C 98, 33 (1), C 105, 35 (2).
White Paper on Democracy and Devolution proposals for Scotland and Wales C 108.

DISABLED
See SOCIAL SECURITY.

DISPERAL
Proposals by the Lord President on dispersal of Government from London C 76, 29 (1).
SECRET

ECONOMIC SITUATION

See Parliamentary Affairs.

PUBLIC EXPENDITURE.

EDUCATION

Effects of former reductions 4 (1).

ELECTION

See also Parliament.

Election Business Committee C109.

ELECTORAL LAW REFORM

Speakers’ conference not at present to be reconstituted C18, 8 (6).

ELECTRICITY RESTRICTIONS

See Emergencies.

ENERGY SAVING.

ENERGIES

State of emergency to be renewed only if Mineworkers’ dispute is not settled 1 (2).

Certain electricity restrictions lifted 2 (2).

ENERGY POLICY

See Anglo-French Continental Shelf.

Energy Saving.

European Economic Community.

Nuclear Reactor Policy.

North Sea Oil.

OIL SHARING.

ENERGY SAVING

Measures to promote energy saving. Heating, floodlighting and external advertising, increase in petrol prices and reduction of speed limits C140, 50 (3).

EUROPE

Conference on Security and Co-operation—Concession made to Russians 19 (2).

EUROPEAN ECONOMIC COMMUNITY (EEC)

See also Parliamentary Affairs.

Agreement reached on Agricultural Prices 6 (3).

Foreign Secretary’s statement to Council of Ministers on 1 April C17, 7 (2).

Renegotiation on terms of entry C19.

Reactions from member Governments to Foreign Secretary’s statement C19, 8 (3).

Discussion of renegotiation objectives 14 (2).

Introduction of Italian imports deposit scheme 15 (3).

Energy policy—United Kingdom support for research but no Community control over our oil supplies or coal industry C38, 15 (4).

Approach to next stage of renegotiation 16 (3).

Use of Political Co-operation Machinery 19 (2).

Concessions to Russia at Conference on Security and Co-operation in Europe 19 (2).

Stocktaking: stage of renegotiation on Sovereignty and political Co-operation C60, C61, 22 (4).

Renegotiation stocktaking 23 (3).

Community beef arrangements 25 (2).

Suspension of beef imports 27 (4).
Discussion on EEC proposals for cheap beef for people receiving social benefits  31 (3), 33 (4).
Renegotiation objectives on regional aids; brief for United Kingdom representative  C 93, 33 (3), 34.
Minister of Agriculture’s intentions at Council of Ministers (Agriculture) Meeting 17–19 September 33 (1).
Meeting of Council of Ministers (Agriculture) 3 September on sugar supply situation 33 (6).
Intended Revise of Association Agreement with Greece 35 (1).
Meeting of Council Ministers (Agriculture) 21 October to discuss further sugar supplies 38 (1), 40 (4).
Council of Ministers (Finance) endorse in principle a scheme on joint community borrowing from oil surplus funds 40 (5).
Agreement reached on sugar supplies at Council of Ministers (Agriculture) meeting on 21 October C 117, C 126, 44 (5).
Council of Ministers (Foreign Affairs) agreement on commitment on annual import of cane sugar from Commonwealth countries 46 (2).
Proposals for changes in beef marketing arrangements to be presented to Council of Ministers (Agriculture) meeting on 18/19 November 46 (2), 48 (2).
Foreign Secretary’s discussions with President of France on 19 November 48 (2).
Council of Ministers (Agriculture) meeting on 18/19 November; New Zealand butter and cheese, beef marketing arrangements and sugar imports 48 (2).
Arrangements for the import of sugar into EEC from developing countries under Protocol 22; reserve to be lifted 48 (2).
Renegotiation—Prime Minister’s discussions with the Chancellor of the Federal Republic of Germany and President of the French Republic 50 (2).
Renegotiation—future handling  51 (3).

F

FAMILY PLANNING
See Social Security.

FOREIGN AFFAIRS
See also under name of individual country or area.
Review of policy on naval visits to certain countries 3 (3).

FRANCE
See also Anglo-French Continental Shelf.
European Economic Community.
Prime Minister’s visit to Paris to attend memorial service for President Pompidou 9 (2).
Atmospheric nuclear tests 19 (2).
Foreign Secretary’s discussion with French President 19 November 48 (2).
Meeting between the President of the United States and the French President 52 (3).

G

GEORGE KENT LTD.
See Parliamentary Affairs.

GOVERNMENT POLICY
See Parliamentary Affairs.

GOVERNMENT PROCEDURE
Questions of procedure  C (P) 1, 2 (1).
Ministerial interviews—policy 3 (1).
GOVERNMENT STRATEGY
Chequers meeting on 17 November—see MISC (74) 52 series.

GREECE
See also EUROPEAN ECONOMIC COMMUNITY.
Visit by Royal Navy ships cancelled 3 (3).

GUYANA
Arrangements for the supply of sugar to the United Kingdom 35 (1).

HARLAND AND WOLFF
See NORTHERN IRELAND.

HOUSING FINANCE
See BUILDING SOCIETIES.

HOUSING FINANCE ACT
Default by Clay Cross councillors; holding reply to be given 8 (2).
Late implementation; losses to be recovered from rate and rent payers in areas where they were incurred C 124, 43 (1).

HS146 AIRCRAFT
Government not at present to provide further financial assistance; project to be shelved.
Proposal that a Select Committee examine the aircraft industry 50 (5).

IMMIGRANTS
White Paper on educational disadvantage and educational needs C 91.

INCOMES POLICY
See also PAY.
TAXES ON CAPITAL.
Statutory controls; use of consent powers C 33, 14 (1).
Collective bargaining and approach to public sector pay negotiations C 58, C 59, 20 (2).
Draft statement C 67, 23 (4).

INDUSTRIAL DISPUTES

INDUSTRIAL SITUATION IN SCOTLAND
Strike of road haulage drivers and strikes by municipal refuse, sewerage and transport workers in Glasgow not related. Conciliation and Arbitration Services making efforts for an early settlement 40 (1).

ROAD TANKER DRIVERS
Wage dispute; emergency action to be taken in the event of industrial action 15 (6), 16 (8).

INDUSTRIAL RELATIONS ACT
See also Bills.
Repeal of Act, further discussions to be held C 11, 5 (6).
Revised proposals to Trades Union Council (TUC) and Confederation of British Industry (CBI) 6 (2).
Amending legislation to be introduced C 25, 10 (2).
Proposed safeguards for trades union members C 30, 12 (2).
Proposal for amending Bill C 128, 44 (2).
Proposals by TUC acceptable subject to conditions; amending Bill not to be published yet.
C 128, 45 (2).
Revised proposals from TUC; threat to freedom of Press by the National Union of Journalists 46 (3).
Bill to be introduced 48 (4).
Anxieties of newspaper editors about provisions of Trade Union and Labour Relations (Amendment) Bill C 142, 50 (4).

INTERNATIONAL PROPERTY DEVELOPMENT (INDUSTRIAL) LIMITED (IPD)
Government assistance to maintain employment; feasibility study to be completed for use of
the factory C 82, 29 (3).
Grant to convenors of IPD to acquire business from the Receiver to run as a workers co-operative C 115, C118, 42 (3).

IRISH REPUBLICAN ARMY (IRA) TERRORISM IN GREAT BRITAIN
Legislation to curb terrorism to be introduced C 139, 49 (1).

JOURNALISTS—NATIONAL UNION OF
See Bills—Trade Union and Labour Relations Act 1974.

KENT, GEORGE LTD.
See Parliamentary Affairs.

LEGISLATIVE PROGRAMME
See Parliamentary Affairs.

LONDON WEIGHTING
Government policy in relation to the Pay Board’s report 25 (6), C 74, 26 (3).

MAPLIN AIRPORT
Future of project to be discussed by Cabinet C 4, 3 (5).
Project to be abandoned C 73, 26 (4).

MEMBERS OF PARLIAMENT
See also Parliamentary Affairs.
Top Salaries Review Body (TSRB) to carry out limited review of levels of allowances C 42, 16 (5).
TSRB report; proposed increases in allowances for Members and Peers C 71, C 75, 27 (5).

MIDDLE EAST
Dr. Kissinger’s Syrian/Israeli talks proving difficult 15 (3), 16 (3).
Meeting of Arab leaders in Rabat 41 (2).

MINeworkers
National Coal Board to negotiate with fresh proposals with the National Union of Mineworkers 1 (1).
Settlement reached; increase in price of industrial coal 2 (5).

MOTOR VEHICLES
Speed limit to be increased on motorways 5 (2).
Reduction of speed limits C 140, 50 (3).
NATIONAL CONSUMERS' AGENCY

White Paper C 94.

NATIONAL ENTERPRISE BOARD (NEB)

Discussion on draft White Paper C 88, C 89, 32 (3).
Regeneration of British Industry—White Paper C 90.

NATIONAL HEALTH SERVICE

See also Parliamentary Affairs.
Democracy in the National Health Service. C 49.
New contracts for consultants conditionally agreed; timing of phasing out of pay beds deferred C 143, C 144, C 145, C 147, 52 (4).

NATIONAL INSURANCE BILL

See Bills.

NATIONAL UNION OF JOURNALISTS

See Industrial Relations Act.

NATIONALISED INDUSTRIES

See also National Enterprise Board.
Northern Ireland.
Increase in charges C 4, 3 (5).
Timing of increases C 28, 11 (2).

NEW ZEALAND

See also European Economic Community.
Increase in price of imports of butter and cheese 48 (2).

NORTH ATLANTIC TREATY ORGANISATION

25th Anniversary Meeting 19 (2).
Reports arising from the Ministerial meeting 12–13 December 52 (3).

NORTH SEA OIL

Draft statement outlining the Government's proposals; White Paper to be published C 65, 22 (2).
White Paper delayed 23 (5).

NORTHERN IRELAND

Success in General Election of candidates opposed to Sunningdale Agreement 3 (4).
Security situation 11 (1).
Consequences of pressure by the Ulster Workers' Council—Government action C 56, 18.
Collapse of the Executive 19 (4).
Northern Ireland Constitution—draft White Paper C 64, 22 (1).
Harland and Wolff to be brought under public control 29 (3).
Proposed special allowances for Civil Servants serving in Northern Ireland 32 (1).

NUCLEAR REACTOR POLICY

Steam Generating Heavy Water Reactor to be adopted for the next nuclear power stations 19 (5).
Draft White Paper C 66, 22 (3).

NUCLEAR TESTS

British tests 21 (3), C. 85, 35 (5).
OIL SHARING

Agreement on emergency oil sharing drafted, setting up an International Energy Programme 38 (3).

PARLIAMENT

Easter Recess 11-29 April 7 (3).
Whitsun Recess—delay in announcement of dates 15 (1).
Whitsun Recess 24 May–10 June 16 (4).
Summer Recess—possible delay 21 (2).
House to rise on 1 August 27 (2).
Dissolution—20 September 36.

Election Business Committee C 109.
Political and Parliamentary situation following the Election 37.

PARLIAMENTARY AFFAIRS

See also Bills.
Restricted programme of legislation 2 (3).
Policy on Opposition amendment to The Queen’s Speech 3 (2).
Pairing arrangements essential 5 (2).
Motor Vehicles (Speed Limits on Motorways) (Amendment); regulations to be amended 5 (2).
Priorities in the development of Government Policy 7 (3).
Legislative programme for 1974–75 Session C 21, 8 (5), 15 (1).
Free vote on compulsory register of Members’ outside financial interests; Select Committee to be set up C 35, 13 (2), 15 (1), 16 (4).
Independent inquiry into nurses’ pay to be announced before debate on National Health Service pay 16 (4).
Necessity for Ministerial statements 19 (1).
Debate on Pension Policy. Debate on European Community Regulations 21 (2).
House of Commons car parking 21 (2).
Delay in printing could impede Parliamentary business 23 (1).
Presentation of Government’s policies and achievements 23 (1).
Debate on Counter-Inflation (Abolition of Pay Board) Order could prove difficult 25 (1).
Economic statement to be made by Chancellor of the Exchequer 27 (2), 28 (1).
Responsibility of Ministers during election campaign 36.
Legislative Programme 1974–75 C 111, 39 (1).
Proposed free vote on Road Traffic (Seat Belts) Bill 41 (1).
Debate on EEC documents on sugar 44 (1).
Financial help for George Kent Ltd.; possible affirmative resolution needed 46 (1).
Second reading of New Towns Bill delayed 48 (1).
Proposed debate on Capital Punishment on 11 December; slow progress with legislative programme 50 (1).
Debate on European Economic Community documents 51 (1).

PAY

See also Incomes Policy.
London Weighting.
Members of Parliament.
Mineworkers.
Northern Ireland.
Social Security.
Top Salaries Review Body.

Armed Forces, nurses, teachers and postal workers’ pay C 33, 14 (1).
Limited pay offer to Union of Post Office Workers (UPW); further talks to be discouraged 15 (7).
Independent inquiry into nurses’ pay 16 (4).
Settlement at end of Statutory Controls for nurses and teachers after announcement of review and settlement for Post Office Workers C 54, 17 (4).
Improved pay offer for Government Scientists C 53, 17 (7).
Review Body on Armed Forces Pay—Pay of Service Medical and Dental Officers—White Paper C 104.
Teachers in Scotland; interim payment desirable immediately after receipt of Houghton Report C 127, 44 (6), 46 (4).
Continuing disruptive action of Scottish teachers 50 (7).
Houghton Report on teachers’ pay—Government acceptance 52 (5).

PEERS’ ALLOWANCES
See Members of Parliament.

PLANNING AGREEMENTS
See National Enterprise Board.

PORTUGAL
Postponement of Royal Navy visit 3 (3).
Recognition of new régime under General Spinola 14 (2).
Resignation of Prime Minister Dr. Palma Carlos 25 (2).

POST OFFICE PAY
See Pay.

PRICE CODE
Review of price code 44 (4).
Changes in the Consultative Document 52 (6).
Review of Price Code; Consultative Document C 130.

PRICES POLICY
Preparation of a Bill amending legislation on subsidies; price margins, unit pricing; the Price Commission; abolition of the Pay Board C 5, 3 (6).

PROGRAMME ANALYSIS AND REVIEW (PAR)
PAR to continue C 78, 29 (4).

PUBLIC EXPENDITURE
See also Channel Tunnel.
Concorde.
Defence Review.
Nationalised Industries.
Deteriorating economic situation; limitation proposed on public expenditure 1974–75.
Ministers to discuss programmes with Chief Secretary C 4, 3 (5).
Procedure for determining programmes 1975–76 to 1978–79 C 23, 10 (3).
Public expenditure report 1978–79; Ministers to have bilateral talks with the Chancellor of the Exchequer C 79, C 80, C 81, 29 (2).
Public expenditure 1974–75 to 1978–79; acceptable rates of growth; Christmas bonus for pensioners; consultation with Ministers having major programmes C 99, C 100, C 101, C 102, C 106, C 107, 35 (3).
Chancellor of the Exchequer to consult further with Ministers on their 1974–75 to 1978–79 public expenditure programmes C 120, C 121, C 122, C 123, 43 (2).
Family allowances; defence expenditure—provisional higher figure; increase in cost of school meals. Committee to be constituted to review poverty C 136, C 138, 49 (3).

PUBLIC OWNERSHIP
See also International Property Development (Industrial) Ltd.
National Enterprise Board.
Proposals for taking the Shipbuilding and Aircraft industries into public ownership C 69, 25 (5).
QUEEN'S SPEECH
Proposals for opening speech 1 (3).
Draft opening speech C 1, 2 (4).
Draft opening speech C 112 Revise, 39 (2).
Revised draft opening speech C 113, 40 (3).
The Queen's speech C114.

QUESTIONS OF PROCEDURE
See Cabinet.

RATES
Rate Support Grant; difficulty in securing Parliamentary approval 5 (2).
Group of Ministers to review rating system 19 (3).
Level of rates 1975–76 and later; Chancellor of the Exchequer to consult with Secretary of State for Environment on extra grant C 125, 43 (3).

REGIONAL EMPLOYMENT PREMIUM
See Assisted Areas.

RHODESIA
Black African leaders released from detention to attend talks 50 (2).
Foreign and Commonwealth Secretary's report on proposals for a constitutional conference 51 (3).

ROAD TANKER DRIVERS
See Industrial Disputes.

ROYAL FAMILY
Attack on Princess Anne and Captain Mark Phillips 5 (1).

SECURITY—PUBLIC
See Royal Family.
IRA Terrorism in Great Britain.

SERVICES COMMITTEE ON CAR PARKING
See Parliamentary Affairs.

SEX DISCRIMINATION
Proposed legislation; White Paper to be published C 70, 26 (5), 31 (4).

SHIPBUILDING INDUSTRY
See Public Ownership.

SIMONSTOWN AGREEMENT
See South Africa.

SOCIAL SECURITY
See also Beef.
Dental Charges.
European Economic Community.
National Insurance Bill.
Public Expenditure.
Uprating of 1974 benefits, pensions increase from July C 6, 3 (7), 7 (4).
Proposals for a comprehensive family planning service C 9, 5 (3).
Social Security Act 1973; proposed interim action and level of contributions C 24, C 29, 10 (5).
July uprating jeopardised by underhand action 12 (3).
Incentives for staff involved with 1974 Upratings C 34, 14 (3), 17 (5).
Timing of legislation for £10 Christmas bonus C 47, 17 (3).
Scheme of help for the disabled C 97, 33 (5).
Better pensions C 103.
Proposals to extend family allowances C 138, 49 (3).

SOUTH AFRICA

See also Wasp Helicopter.
Visit by Royal Navy units to Simonstown; Press reaction 40 (2).
Proposed consultations with South African Government to terminate the Simonstown Agreement C 119, 42 (2).
The Simonstown Agreements C 131.
African workers; Select Committee's report C 146.

SOVIET UNION

Improved relations and prospects for trade 16 (3).
President Nixon's visit 23 (2).
Relations with the United States 41 (2).

SPECIAL ADVISERS TO MINISTERS

Rules to govern political activities C 41, 16 (7), C 50, 17 (9).

SPECIAL DEVELOPMENT AREAS

See Assisted Areas.

SCOTLAND

See Industrial Situation in Scotland.

PAY

STATUTORY PAY CONTROLS

See Pay.

STRATEGY AND POLICY

Strategy and Priorities; Ministerial and high salaries; televising of House of Commons proceedings; economic growth. Ministers to submit proposals before Chequers meeting C 110, 38 (4).

SUGAR

See also European Economic Community.
Supplies; negotiations with Guyana and preliminary discussions with Australia 35 (1), 38 (1).
Acceptance of agreement reached in Council of Ministers (Agriculture) on future sugar supplies; steps to be taken to deal with the likely shortage; future structure of cane refining industry to be examined 40 (4), C 117, C 126, 44 (5), 48 (2).
Possible supplies from Australia 46 (2).

"SUNDAY TIMES"
Proposed article on the Cabinet's lifestyle 35 (4).

SUPERANNUATION—NATIONAL

Draft White Paper C 84, 30 (1).
TAXES ON CAPITAL
Proposals to be outlined in Green and White Papers 30 (2).

TEACHERS
See also PAY.
Concession on pensions C 62, 21 (6).

TERRORISM IN GREAT BRITAIN
See Irish Republican Army.

TOP SALARIES REVIEW BODY
See also Members of Parliament.
Third interim report to be published: Government reject threshold payment recommendation C 43, 16 (6), C 52, 17 (6).
Report accepted for higher Civil Service, the judiciary and senior Armed Forces, subject to staging: annual future reviews. Chairman and board members of nationalised industries to await report of the Royal Commission on Income Distribution and Wealth C 134, C 141, 50 (6); C 134, C 141, C 145, 51 (4), 52 (2).

TRADES UNION CONGRESS (TUC)
Handling of discussions with TUC C 7, 4 (2).

TRADE UNION AND LABOUR RELATIONS ACT 1974
See Bills.
INDUSTRIAL RELATIONS ACT.

UGANDA
Reduction in staff in our High Commission following Press reports on President Amin; President Amin's presence at meeting of Commonwealth Heads of Government 44 (3).

UNITED STATES OF AMERICA
Relations with the Soviet Union 41 (2).
Meetings between the President of the United States and the French President 52 (3).

WASP HELICOPTER TO SOUTH AFRICA
Export licence to be revoked C 39, C 40, 16 (2).
## CONSIDERATION OF MEMORANDA AT MEETINGS

**MEMORANDA C(74) 1-147**

**CONCLUSIONS CC(74) 1ST-52ND**

<table>
<thead>
<tr>
<th>Memorandum</th>
<th>Conclusions at which considered</th>
<th>Memorandum</th>
<th>Conclusions at which considered</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2 (4)</td>
<td>54</td>
<td>17 (4)</td>
</tr>
<tr>
<td>2</td>
<td></td>
<td>55</td>
<td>17 (8)</td>
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<td>56</td>
<td>18</td>
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<td>4</td>
<td>3 (5)</td>
<td>57</td>
<td>20 (2)</td>
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<td>5</td>
<td>3 (6)</td>
<td>58</td>
<td>20 (2)</td>
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<td>6</td>
<td>3 (7)</td>
<td>59</td>
<td>22 (4)</td>
</tr>
<tr>
<td>7</td>
<td>4 (2)</td>
<td>60</td>
<td>22 (4), 23 (3)</td>
</tr>
<tr>
<td>8</td>
<td>5 (4), 7 (5)</td>
<td>61</td>
<td>21 (6)</td>
</tr>
<tr>
<td>9</td>
<td>5 (2)</td>
<td>62</td>
<td>24</td>
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<td>63</td>
<td>22 (1)</td>
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<td>5 (7)</td>
<td>64</td>
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<td>93</td>
<td>33 (3), 34</td>
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<td>41</td>
<td>16 (2)</td>
<td>94</td>
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<td>42</td>
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<td>17 (7)</td>
<td>106</td>
<td>35 (3)</td>
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<td>35 (3)</td>
<td>128</td>
<td>44 (2), 45 (2)</td>
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<td>137</td>
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Cabinet Office,
January 1975.
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 16 JULY 1974
at 11.00 am

PRESENT
The Rt Hon Harold Wilson MP
Prime Minister
The Rt Hon Edward Short MP
Lord President of the Council
The Rt Hon Lord Elwyn-Jones
Lord Chancellor
The Rt Hon Denis Healey MP
Chancellor of the Exchequer
The Rt Hon Michael Foot MP
Secretary of State for Employment
The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection
The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry
The Rt Hon Roy Mason MP
Secretary of State for Defence
The Rt Hon William Ross MP
Secretary of State for Scotland
The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster
Items 1-4)
The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs (Items 1-3)
The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department
The Rt Hon Anthony Crosland MP
Secretary of State for the Environment
The Rt Hon Eric Varley MP
Secretary of State for Energy
The Rt Hon Barbara Castle MP
Secretary of State for Social Services
The Rt Hon Peter Shore MP
Secretary of State for Trade
The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science
The Rt Hon John Morris QC MP
Secretary of State for Wales
The Rt Hon Lord Shepherd
Lord Privy Seal
THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
  Attorney General (Items 1 and 2)

The Rt Hon Robert Mellish MP
  Parliamentary Secretary, Treasury

Mr Robert Sheldon MP
  Minister of State,
  Civil Service Department
  (Item 3)

SECRETARIAT

Sir John Hunt
Mr H F T Smith (Item 1)
Mr P Benner (Item 5)
Mr J A Hamilton (Items 1-4)
Mr J Anson (Item 4)
Mr H F Ellis-Rees (Item 2)
Mr R L Baxter (Item 3)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>CYPRUS</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>CONCORDE</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>LONDON WEIGHTING</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>MAPLIN AIRPORT PROJECT</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>SEX DISCRIMINATION</td>
<td>9</td>
</tr>
</tbody>
</table>
1. THE SECRETARY OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that, contrary to earlier information, it now seemed that the President of Cyprus, Archbishop Makarios, was still alive. The Greek Government were playing down the events in Cyprus, but it was clear that they were in some degree involved. He had sent a message the previous day through Her Majesty's Ambassador in Athens to the Acting Foreign Minister, and had now instructed the Ambassador to follow this up with a request that the Greek Government should make a public statement affirming in unambiguous terms their respect for the independence, the territorial integrity and the security of Cyprus. The Ambassador would also suggest that the present Greek officers should be withdrawn from the Cypriot National Guard. The Turkish Government who, together with the Greeks and ourselves were guarantors of the 1960 Treaty, had so far behaved with admirable restraint, but the situation was grave and potentially explosive. A number of other countries had expressed their concern, including the Soviet Union. He had also been in touch with the Secretary General of the United Nations, Dr Waldheim, who did not think it wise at this stage to convene a meeting of the Governments contributing to the United Nations Force in Cyprus; it was right to respect his judgment that it would be better to wait, at least until we saw how the Greeks responded to our request for a public statement of their position. Similarly a meeting of the United Nations Security Council would be premature.

THE PRIME MINISTER, summing up a brief discussion, said that developments would have to be followed closely. The situation was potentially very dangerous. In addition to the British forces stationed in Cyprus, numbering some 8,000, there was a large number of British subjects on the Island and we must be ready to implement our contingency plans if the need should arise. The Foreign and Commonwealth Secretary would be making a further statement in Parliament that afternoon.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
2. The Cabinet considered a note by the Lord Chancellor (C(74) 72) to which was attached a draft negotiating brief on Concorde for the Prime Minister's forthcoming discussions with the President of France.

THE LORD CHANCELLOR recalled that the Cabinet had invited him to arrange for the Ministerial Committee on the Concorde Project to consider the negotiating brief for the Prime Minister's forthcoming discussions with the President of France, and submit it for their approval. The draft brief before them had been unanimously agreed by the Committee. It recommended that the objectives should be to rehearse the major problems concerning the continuance of the programme; to test the strength of French resistance to the British Government's preferred course of outright cancellation; to agree, if the French were immovable, to complete the production of 16 aircraft but no more, and seek their agreement to this; and to secure agreement in principle to a new agreement (probably by Exchange of Letters) which would take the new situation fully into account and modify the 1962 Treaty as necessary. He had one detailed amendment to propose to paragraph 6(f) of the draft brief, concerning a possible resumption of the programme after 16 aircraft had been completed. The second sentence should read: "But any agreement to authorise further production or development must clearly define the commitment of the parties".

In discussion the view was expressed that it was regrettable that the Cabinet had to decide this issue before they were able to consider Public Expenditure as a whole. When the Public Expenditure Survey came before them it would be all too apparent that in the current economic climate many programmes of social value and deep concern to a Labour Administration must be curtailed or forsworn, and there would then be great regret at the extent to which Concorde limited the Government's room for manoeuvre: cancellation even now would save between £100 and £250 million. Some disquiet was also expressed about the tone of the brief. There seemed to be a danger of blurring the Cabinet's previous decision to limit the programme to 16 aircraft and that only if the French refused to agree to cancellation. The French were proceeding with the programme on the assumption that we would always acquiesce in a course which they had chosen and which we could not afford; and we would never regain our negotiating freedom until this bluff was called. There should be no question of entertaining any further production beyond 16 aircraft, except in the remote contingency of firm orders coming forward in sufficient quantity to make continuation an economic proposition. Nor should it be thought that agreement now to complete the production of 16 aircraft would be the end of the problem. Work was already running down in Toulouse (which accounted for the French Government's eagerness
to build another 3 aircraft) and Weybridge, and early next year it would begin to do so at Bristol. In a year's time the Government would face exactly the same dilemma and there would again be similar pressures to continue the programme.

On the other hand it was argued that production of all the 16 aircraft was now well advanced, and the programme could only be cancelled in any meaningful sense by locking the gates and dismantling the half-completed aircraft. So drastic a step - which would disrupt the French part of the programme as well as our own, since each aircraft was partly built in each country - would have the widest political implications.

There was general agreement that if the programme were to continue, there must be stringent conditions about the circumstances in which it would do so, and the extent of our obligations. We should be enabled to withdraw if, for example, there were large cost overruns; above all, the French Government must be brought to realise - a point the brief did not make - that landing rights at New York, which were still to be secured, were crucial to the whole future of the project.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had already decided that if the French Government refused to cancel Concorde, the programme to complete 16 aircraft should continue and that decision should not be reopened now. But he and the Foreign and Commonwealth Secretary well appreciated the concern expressed by a number of their colleagues about the economic consequences of continuing the Concorde programme, and would bear in mind the points which had been made in discussion in their discussions with the French President about the future of the programme.

The Cabinet -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.

2. Approved C(74) 72, subject to the amendment of paragraph 6(i) indicated by the Lord Chancellor.
3. The Cabinet considered a memorandum by the Secretary of State for Employment (C(74) 74) on London weighting.

The Secretary of State for Employment said that the Trades Union Congress (TUC) had now decided to hold a conference of unions the following day on the subject. The conference would probably result in the TUC General Secretary asking for an explicit assurance that the Pay Board report was not seen by the Government as a straitjacket but simply as guidance to negotiators. He recommended that he should be allowed to give such an assurance if asked. He should try to maintain the apparently contradictory principles that the recommendations of the Pay Board ought to be applied but that negotiations would still be free. This meant that the Government could give guidance on negotiations in the public sector but should not try to impose any absolute limit or exercise any veto on the results of the negotiations. The Government as employer should still try to get settlements consistent with the Pay Board's principles and ought not themselves to make the breach. But the London weighting arrangements likely to be adopted by the London clearing banks were in excess of the limits in the Pay Board report; the Government should not therefore adopt an attitude so rigid that it would be put in an untenable position if the banks or others eventually breached recommendations of the report.

In discussion it was generally agreed that where the Government was the employer it should not set an example of breaching the report. The difficulty was that for the teachers and the police the Government was not the employer. It was argued that without exercising any veto, the aim of the Government should be to induce the employers to keep as close as possible to the financial limits recommended in the report, so that the estimated total cost of £154 million would not be exceeded. Under the social contract the trade unions ought to be ready to agree that the sole purpose of the allowance was to compensate for the additional cost of living in London. Many people in Scotland and the regions were doubtful whether this difference was as great as the Pay Board had estimated, and the trade unions whose members worked outside London might well consider the recommendations too generous. It would appear illogical for the Government to try to limit the total awards to the police and the teachers but not those to the local authority staff, since the same local authorities were the employers of all three groups. The Local Authorities Conditions of Service Advisory Board (LACSAB) had asked to see the Prime Minister so as to ensure that there would be no leap-frogging of claims. The National and Local Government Officers' Association (NALGO), which had rejected the social contract, had chosen to
make their first attack on the gas industry with the aim of breaking the policy; they had withdrawn from negotiations and were balloting for a strike. The Pay Board report presented the Government with a clear issue; and if they would not stand firm on this issue it was hard to see where they would ever take a stand.

On the other hand it was argued that, although there was a good case against giving any allowance for London weighting, the Government had to deal with the situation which they had inherited and they could not now abandon the principle of compensation that was the basis of the Pay Board report. By dealing with this issue before the social contract came into effect the Government had avoided making any breach in the contract. To impose any rigid limit would be the denial of free negotiations; but this did not mean that every claim should be conceded. It was to be hoped that the employers would resist the claims of NALGO. The aim should be to stick to the principles in the Pay Board report but to be prepared to give a little extra sometimes where this was necessary to reach a settlement. The edges of the policy might be somewhat blurred but a blurred policy was better than an industrial confrontation. The Government was engaged in a new experiment in free bargaining, having in mind the limits that aggregate earnings should not exceed. Sometimes it would be cheaper to settle a claim and sometimes not. But if at the end of the year it turned out that the average level of settlements had been too high the experiment would be seen as a failure.

As regards the private sector it was argued that the expected action by the banks and insurance companies would make it more difficult for the Government to hold the line. These institutions and also the oil companies had not had their profits significantly reduced by price control and could afford to be generous in their pay settlements; other companies were already in difficulties because of the threshold arrangements.

THE PRIME MINISTER, summing up the discussion, said that on balance the Cabinet had accepted the proposals of the Secretary of State for Employment although it was clear that some Ministers were deeply concerned about the implications of Government policy in this field. They agreed that, although there must be flexibility, the aim should be to keep any excess over the limits in the Pay Board report to a minimum. The Secretary of State for Employment should meet LACSAB and persuade them to co-ordinate their policies on these lines. As regards the private sector, the Treasury should consider whether any means could be found to deter the financial institutions from paying over the odds and also whether any further inducements or sanctions should be adopted in order to persuade firms in the private sector to disperse their staffs outside London.
The Cabinet -

1. Took note with approval of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Employment to proceed accordingly.

2. Invited the Chancellor of the Exchequer to consider the points relating to the private sector mentioned in the Prime Minister's summing up.
4. The Cabinet considered a memorandum by the Secretary of State for Trade (C(74) 73) about the review of the Maplin airport project.

THE SECRETARY OF STATE FOR TRADE said that the review of the Maplin airport project which he had announced on 21 March had been completed, and a report by officials would shortly be ready for publication. The central finding of the report was that there had been a fundamental change in the forecast number of air traffic movements. Because of the higher price of fuel and the increasing use of wider-bodied aircraft, the forecasts were now significantly lower, and no need was seen for further runway capacity in the South-East before 1990. The report had gone on to examine a number of options, but the basic choice was between building Maplin airport, which would allow Luton and Stansted to be closed to air transport, or abandoning Maplin and redistributing the growth in air traffic, mostly among the existing London area airports. While some traffic might be diverted to regional airports, the scope for relief in this way appeared to be limited. The question of noise would remain a sensitive issue, and a decision to abandon Maplin would be opposed by those who lived around the existing airports; on the other hand Maplin was much more expensive than any of the other options. He had discussed the matter with the Ministerial Committee on Economic Policy, which had agreed to recommend that the Maplin airport project should be abandoned. He proposed to announce this in a Parliamentary statement on the lines of the draft attached to C(74) 73, and to publish the report by officials, if possible on Thursday 18 July. Further work would be done on the use of regional airports, and he would initiate consultations with those concerned on the alternative options to Maplin. It was possible that there would be a demand for a debate, and he recommended that time should be allowed for this, preferably after the Recess.

In discussion, it was argued that aircraft noise was already a source of great resentment among those living around the existing London area airports, and abandonment of Maplin would be strongly criticised in those areas. Expansion of the existing London area airports would also absorb workers needed for the expansion of local industry. On the other hand, the Cabinet's discussion of London weighting had underlined the need to avoid concentration in the South-East, and this should also be borne in mind when the future of the Maplin seaport project came to be decided. The Government should urgently seek ways of restricting any further expansion of the London area airports, and of encouraging the greater use of regional airports, which were generally further from centres of population. It might be preferable for some people in the South-East to have to start their journeys at regional airports, rather than,
as now, people from the regions having to travel to London. In particular, the possibility should be examined of imposing a financial disincentive to the use of the London area airports. While specific proposals to this effect could not be included in the forthcoming statement, it should be made clear that the subject was being studied.

In further discussion, it was noted that abandonment of the Maplin airport project should save the large expenditure involved in relocating the Shoeburyness firing range. This saving would however only be achieved if the seaport was also abandoned, and this should be borne in mind in the assessment of the seaport proposals.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Maplin airport project should be abandoned, and that the Secretary of State should announce this in a Parliamentary statement and should publish the report by officials. The Cabinet attached importance however to making greater use of regional airports and discouraging the expansion of the existing London area airports. The Secretary of State for Trade should examine ways of achieving this objective, including the possibility of financial disincentives to the use of the London airports; and the announcement should indicate that the matter was being examined. The draft statement should also be revised in the light of any drafting comments suggested by other Ministers, and it should be shortened as far as possible. The Secretary of State should discuss the timing of the announcement with the Lord President and the Chief Whip.

The Cabinet -

1. Approved C(74) 73, subject to the points made by the Prime Minister in his summing up of their discussion.

2. Invited the Secretary of State for Trade -

   i. to revise the draft statement attached to C(74) 73 in the light of their discussion, and having regard to any further drafting points suggested by other Ministers;

   ii. to make the statement in the House of Commons, and publish the report by officials, on a date to be agreed with the Lord President and the Chief Whip;
iii. to examine ways of ensuring greater use of regional airports and of discouraging the expansion of the existing London area airports, including the possibility of financial disincentives, as suggested in their discussion.

SEX DISCRIMINATION

5. The Cabinet had before them a memorandum by the Secretary of State for the Home Department about Legislation on Sex Discrimination (C(74) 70).

THE HOME SECRETARY said that if his proposals were approved he had in mind to make a short general statement in the House of Commons on 22 July, and to put in hand the preparation of a White Paper for issue in the last week of August or the first week of September. He would aim to have a Bill drafted in time for it to receive its Second Reading before the Christmas Recess, so that it could reach the Statute Book by the late spring of 1975, well before the Equal Pay Act came into force. His proposal was for arrangements which would have a wider scope and be more effectively enforced than those envisaged by the previous Administration. As regards enforcement, he proposed that complaints about employment should be dealt with by Industrial Tribunals; that complaints relating to the maintained sector of education should be dealt with in the first place by the Education Ministers; and that other complaints should go to the county courts. There would be a strong Equal Opportunities Commission, the main function of which would be to identify and deal with discriminatory practices by industries, firms or institutions. It would be able to undertake general enquiries and would have the power of subpoena, though this could only be exercised with the consent of the Home Secretary. He had considered whether access to the courts should be possible only through the Equal Opportunities Commission, thus making arrangements parallel to those provided for in race relations legislation, but had concluded that this was not necessary. It was unlikely that very large numbers of cases would otherwise be brought to the county courts, and in any case such a provision was likely to be unacceptable to women's organisations. As regards the scope of the Bill, two approaches were possible. The first would be for it to apply to employment and education and to areas, such as credit, mortgages, housing accommodation and access to licensed premises, restaurants and hotels, which had been the subject of serious complaints. There could be power to add to the list by regulations subject to Affirmative Resolution. The second approach was for the Bill to make it unlawful to discriminate in the provision to the public of the generality of goods, services and
facilities covered by the Race Relations Act, but with certain specific exceptions. Both courses should in the end produce much the same result; but in his view the broad approach had decisive presentational advantages and was to be preferred - it would indeed be difficult to explain why the Government were adopting a more restrictive approach than that provided for in the Race Relations Act. It was true that exceptions would have to be identified and defined; but this should not present insuperable difficulty.

One question which was still open was how the Bill should treat incitement to commit a discriminatory act. At the recent meeting of the Home Affairs Committee at which the subject had been considered he had expressed the view that the Bill should deal only with aiding and abetting; but he now thought that it ought to provide that anyone responsible for aiding, inducing or inciting the committal of a discriminatory act should be treated as doing that act. This was however a somewhat contentious matter and a final decision would have to await the completion of the consultations with the Trades Union Congress (TUC) on which the Secretary of State for Employment was at present engaged. The matter did not have to be referred to in the Parliamentary statement.

In discussion, considerable support was expressed for the wide approach. There was however some support for the narrower approach, although this was itself fairly wide, on the grounds that it might be more prudent. Thus it would help to avoid the appearance of anomalies or absurdities which might discredit the new legislation, and would prevent an excessive number of cases from coming to the courts. If however the wide approach were preferred, it was argued that it would be helpful if the power to seek an injunction were exercisable only by the Equal Opportunities Commission. Further thought was needed about the extent to which insurance should be excluded. Discrimination could of course arise; but the different - and frequently more advantageous - terms offered to women by insurance companies were often fully justified on actuarial or other statistical grounds; and it would be unfortunate if a side effect of legislation on discrimination was to deprive them of these benefits. It would be desirable for the Bill to make specific provision for dealing with incitement; and it would be helpful if legal aid could be made available for women bringing cases before Industrial Tribunals. There might well be other points of detail which would arise during the consultations but which would not affect the Home Secretary's statement in the House of Commons.
THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed generally with the Home Secretary's proposals and on balance shared his view that the scope of the Bill should be defined in wide terms - ie that it should be made unlawful to discriminate in those areas covered by the Race Relations Act, subject to such limited exceptions as might be necessary. The Home Secretary should discuss with the Secretary of State for Trade what exceptions were required in relation to insurance. The proposals about enforcement were also acceptable, but the Home Secretary should consider with the Lord Chancellor whether, to relieve the possible burden on the courts, the power to seek an injunction should be given only to the Equal Opportunities Commission and not to individuals. It was prima facie desirable that any person aiding, inducing or inciting the committal of a discriminatory act should be treated as doing that act; but a final decision on this would have to await the conclusion of the Secretary of State for Employment's consultations with the TUC. Moreover, it might be helpful for any such cases to be examined by the Equal Opportunities Commission before they came to the courts. The Home Secretary should, as proposed, make an early Parliamentary statement, consulting the Lord President about a suitable date, and should report again to the Cabinet before the Summer Recess on the progress being made. He should also put in hand the preparation of a White Paper for issue in late August or early September; it should be agreed with the Ministers mainly concerned and should be circulated in draft to members of the Cabinet, although there might be difficulty in arranging a meeting to discuss it.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Home Secretary, in consultation with the other Ministers concerned, to proceed accordingly.
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 18 JULY 1974
at 11.30 am

PRESENT
The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer
(Items 1-4)

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and
Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon James Callaghan MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

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

The Rt Hon Lord Shepherd
Lord Privy Seal
ALSO PRESENT

The Rt Hon Robert Mellish MP  
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt  
Mr P D Nairne (Item 4)  
Mr H F T Smith (Items 1 - 4)  
Mr P Benner (Items 1 - 3 and 5)  
Mr K R Stowe (Item 5)  
Mr D Evans (Item 4)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>CABINET BUSINESS</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td>1</td>
</tr>
<tr>
<td>3.</td>
<td>NORTHERN IRELAND</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Harland and Wolff</td>
<td>2</td>
</tr>
<tr>
<td>4.</td>
<td>FOREIGN AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cyprus</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>European Community: Beef Arrangements</td>
<td>4</td>
</tr>
<tr>
<td>5.</td>
<td>MEMBERS' AND PEERS' ALLOWANCES</td>
<td>6</td>
</tr>
</tbody>
</table>
1. **THE PRIME MINISTER** said that because of the very considerable volume of business which would have to be dealt with during the next two or three weeks it would be necessary for the Cabinet to have more than two meetings during the coming week, and the week following that. The possibility could not be excluded that the Cabinet would have to meet during the week beginning 5 August.

2. The Cabinet were informed of the business to be taken in the House of Commons during the following week. It was reported that the Chancellor of the Exchequer was proposing to make an important economic statement on 22 July. On present plans it was likely that the House would rise for the Summer Recess not later than Thursday, 1 August. It would be helpful if before then time could be found for at least the Second Reading of the Education (Awards and Grants) Bill. It was unlikely that this measure would be politically controversial.
3. THE PRIME MINISTER said that the Secretary of State for Northern Ireland would make a statement in the House of Commons on 22 July announcing that the shipbuilding firm of Harland and Wolff Limited was being brought under public control. The financial position of the company was such that in the absence of a major intervention by the Government it would be forced into liquidation, with serious political, social and security consequences for Northern Ireland and Belfast in particular. United Kingdom and Northern Ireland Government held loans would be converted to enable us to obtain 90 per cent of the equity in the company through the acquisition of voting shares. An examination of Northern Ireland expenditure would be made by the Secretary of State for Northern Ireland and the Chief Secretary, Treasury, to ensure that expenditure was subjected to rigorous scrutiny, and in particular to find savings to offset the cost of rescuing Harland and Wolff from collapse.
THE FOREIGN AND COMMONWEALTH SECRETARY said that the internal situation in Cyprus appeared to be quiet: the illegal regime, with the support of the Greek-officered National Guard, seemed to have the country under control. But the situation could develop quickly and dangerously. He was arranging for public advice to be given to intending holiday makers not to travel to the island. The Prime Minister and he had held talks with the President of Cyprus, Archbishop Makarios, the previous day, and the President was now travelling to New York to attend a meeting of the Security Council. They had discussed with him the terms of a possible resolution. They had also had separate meetings with the Prime Minister of Turkey, Mr Ecevit, whose approach to the situation was marked by a degree of caution. The Turkish Minister of Defence, Mr Isik, who was also acting Foreign Minister, had however taken a less restrained line. He would be seeing Mr Isik again later that day. The Turks were envisaging the possibility that they might be obliged to invade Cyprus for the sake of the Turkish Cypriot community there, who, according to some reports, had already suffered maltreatment at the hands of the National Guard. The Turks showed interest in the possibility of co-ordinating military measures bilaterally with us. The Greek Government were apprehensive lest the Turks should invade Cyprus, and were showing some nervousness about Mr Ecevit's visit to London. Brigadier Ionnides had asked to see our Ambassador who, when he called on him later in the day, would say that he was unable to provide any information about our talks with the Turks, but that if Brigadier Ionnides wished to visit London the Foreign and Commonwealth Secretary would be willing to meet him. The question arose whether we should issue a positive invitation to the Greeks to come here for talks. No useful purpose would be served, however, if they were to send civilian members of their Government, since these had no influence.

The Foreign and Commonwealth Secretary said that United States policy was not entirely clear. The Under Secretary of State, Mr Sisco, had come to London for discussions and he would seek to persuade Mr Sisco to go to Athens to put pressure on the Greek Government to withdraw the Greek officers from the Cyprus National Guard. He would also ask the Americans to put the maximum pressure on the Turkish Government not to invade Cyprus. In our view a resolution in the Security Council should include three elements: continued recognition of Archbishop Makarios as the legally elected President; a call on the Greek Government to withdraw their officers from the National Guard; and a call for the restoration of legal government in Cyprus. In the unlikely event that the Greeks agreed to withdraw the officers, the illegal government would probably not survive for very long and President Makarios might well be able to return to Cyprus and resume the Government.
THE PRIME MINISTER, summing up a brief discussion, said that we were inevitably much involved in the problems created by the overthrow of President Makarios. The existence of our Sovereign Base Areas in Cyprus and the presence there of our forces and their families was one aspect of our involvement, and studies were being made urgently of the implications of military intervention, whether or not we participated in it. We also contributed to the United Nations Force in Cyprus. We were fellow members of the Commonwealth and, together with Greece and Turkey, we were guarantors of the 1960 Treaty. A number of countries were pressing us to take the lead. The Soviet Ambassador, who had delivered a message to him from Mr Brezhnev earlier in the week, had now asked to see him again. It was entirely in accord with our position as guarantors of the Treaty that we should pursue consultations with Turkey and Greece. But military intervention by us or the Turks, separately or together, would not be desirable. If diplomatic pressures on Greece failed, and military action against Cyprus had to be contemplated, this should be a United Nations decision and operation. We had, however, made some precautionary naval dispositions and were studying the possible usefulness of an international blockade to sever communications between Greece and Cyprus. He had decided to establish a small group of Ministers to keep the situation under review, and to meet at short notice if necessary. No important decisions would be taken without reference to the Cabinet.

The Cabinet -

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

The Cabinet discussed the decisions on arrangements for beef under the Common Agricultural Policy (CAP) which were taken at the Council of Ministers (Agriculture) on 15-16 July. It was argued that despite our success in getting agreement to a scheme of direct premia for beef producers, it was disturbing that the Community had decided to suspend imports of beef. This was contrary to the Government's stance on renegotiation of import arrangements under the CAP.

On the other hand it was argued that failure to achieve the scheme for producer premia could have led to disorderly marketing over the next few months and subsequently to serious shortages for consumers. The suspension of imports would have little practical effect on supplies since it was temporary, and did not apply to existing licences or to supplies of frozen beef entering levy free under the General Agreement on Tariffs and Trade (GATT) quota.
THE PRIME MINISTER, summing up the discussion, said the Cabinet were agreed that although the Community decision to suspend imports was regrettable it was an acceptable price to pay for the major success of securing agreement to the premia arrangements. It did not prejudice our requirements for long term changes in import arrangements under the CAP. In the public presentation of the results of the Council Meeting we should exploit the Minister of Agriculture's success in renegotiating a fundamental part of the CAP arrangements. The question of whether we should implement the proposals for cheap beef for people receiving social benefits would need to be discussed further and he would arrange for it to be examined by a small group of Ministers under the Chairmanship of the Minister of Agriculture.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of the discussion.
5. The Cabinet had before them memoranda by the Lord President of the Council (C(74) 71) about Members' allowances and by the Lord Privy Seal (C(74) 75) about Peers' allowances.

THE LORD PRESIDENT OF THE COUNCIL said that the Top Salaries Review Body (TSRB) had now submitted its Report on Members' allowances. They proposed to increase the car allowance (from 5p to 7.7p per mile), the secretarial allowance (from £1,000 to £1,750), the additional costs allowance for Members living outside London (from £750 to £1,050 per annum) and the London supplement for Members living in London (from £175 per annum to £228 per annum). In addition they proposed altering the boundary rules for the London supplement to avoid any Member falling between the boundaries for the London and additional costs allowance. The increases did no more than make good the loss in purchasing power since they were raised to their present level nearly three years ago and he proposed that they should be accepted and implemented from 1 August.

THE LORD PRIVY SEAL said that, as agreed by the Cabinet at its earlier discussion, he had announced in May, when Members' allowances were referred to the TSRB, that an increase in the Peers' allowance would also be considered. In the light of the TSRB Report now received and the proposals for Members' allowances he proposed that the Peers' daily allowance should also be increased from 1 August from £8.50 to £11.50, the current rate of the Civil Service subsistence allowance to which it was linked. The present allowance was, however, unsatisfactory from the standpoint of Peers living outside London, whose expenses were very much greater, and he proposed, therefore, that the TSRB should be asked to review the whole basis of the allowance, and in particular the possibility of a differential allowance.

In discussion it was argued that the proposed increases were substantial in percentage terms and that in the present economic situation it would be better to defer their announcement until after the Recess. On the other hand it should be made clear that Members were not getting an increase in their basic pay, that the allowances were to meet actual expenses, and that the increase in the secretarial allowance in particular was essential if Members were to be able to employ secretaries at current rates of pay. As to the Peers' daily allowance, there were strong arguments against improving this in its present form since it gave an easily-acquired payment to any Peer living in London who attended the House, while failing to meet the real needs of Peers whose homes were outside London. It would
be better, therefore, to refer the allowance to the TSRB and make no increase in the payment for the few days remaining before the Recess. As against this, the Government had already committed itself to considering an increase in this allowance concurrently with the increase in Members' allowances and there were many Peers, especially among those supporting the Government in its legislative programme, who urgently needed an increase to enable them to meet the expenses they were incurring.

THE PRIME MINISTER, summing up the discussion, said the Cabinet were agreed that Members' allowances should be increased from 1 August as proposed by the TSRB. Particular care should be taken, however, in presenting the increases to emphasise that the basic pay of Members was not being increased, that the allowances were to meet expenses actually incurred and that the amount of the increase proposed by the TSRB and accepted by the Government did no more than compensate for the higher costs of these items. As to the proposed increase in the Peers' allowance, it was agreed that the whole basis of the allowance should be reviewed by the TSRB and that some increase was urgently needed in the allowance for Peers living outside London. There were substantial arguments in favour of deferring any general increase until after the Recess, so that the TSRB could by then have made recommendations which provided for provincial differentiation; but on balance the Cabinet concluded that it was preferable to announce now, as proposed, a general increase in the allowance from 1 August together with a review by the TSRB with particular reference to the problems of Peers living outside London. The increase for both Members and Peers should be announced concurrently.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Lord President and the Lord Privy Seal to proceed accordingly.

Cabinet Office.

18 July 1974
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
MONDAY 22 JULY 1974
at 12.00 noon

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer
(Item 1)

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade
(Item 1)

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Trade

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

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

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster
ALSO PRESENT

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr H F T Smith (Item 2)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>ECONOMIC STATEMENT</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>CYPRUS</td>
<td>1</td>
</tr>
</tbody>
</table>
1. THE CHANCELLOR OF THE EXCHEQUER communicated to the Cabinet particulars of the proposals in the statement he was to make in the House of Commons that afternoon. In accordance with precedent, details are not recorded in the Cabinet Conclusions.

2. The Cabinet had before them a Note by the Secretary of the Cabinet (C(74) 77) covering a report by officials on the situation in Cyprus.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Greek and Turkish Governments had agreed to a ceasefire in Cyprus, to come into effect that afternoon. They had also agreed to hold discussions with us, as the three Governments guaranteeing the 1960 Treaty. He hoped that these discussions could begin within the next two days; they would probably take place in either Vienna or Geneva. The Turks must be disappointed at the meagre success of their armed intervention. They would not of course admit this publicly; and they could claim that by establishing several thousand of their troops on the island they could ensure that Cyprus would return to constitutional government, and they were in a better position to protect the Turkish Cypriots. It remained to be seen whether the return of President Makarios would be acceptable to the Greek and Turkish Governments or, indeed, to the Cypriots themselves. If he did not return, the requirements of the constitution would be met by the appointment in his place of Mr Clerides, Speaker of the House of Representatives, pending new elections. Throughout the past few days he had been in frequent touch with the United States Secretary of State, Dr Kissinger, and with the Greek and Turkish Governments. Initially the United States Government had been preoccupied by the wish to prevent Greece from leaving the North Atlantic Treaty Organisation and their anxiety to retain the facilities in Greek ports which were important to the American Sixth Fleet. The Americans had been rather slow to appreciate the prime importance of the situation in Cyprus itself. But once the Turkish attack had taken place they had worked hard, in full consultation with us, to avoid war between Greece and Turkey. Indeed it was the dependence of both countries on American aid which gave the Americans, and them alone, the leverage to insist upon a ceasefire.

THE PRIME MINISTER, summing up a brief discussion, said that our Armed Services had achieved an outstanding success in bringing the Service families and so many British and foreign residents and tourists into the safety of the Sovereign Base Areas. There had been some public criticism that a warning had not been given to British tourists to leave Cyprus as soon as there was speculation
about a possible Turkish invasion. We had been right not to do this: if we had advised British subjects to leave earlier this would have made little practical difference and would have confirmed the Greek Government and their supporters in Cyprus in their suspicion that we were in collusion with the Turks: the danger of Greek-Cypriot violence against our people would then have been much increased.

The ceasefire was an important achievement, and although the Americans had been immediately responsible, it was also a success for our own efforts.

The Cabinet -

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

Cabinet Office

22 July 1974
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
FRIDAY 26 JULY 1974
at 10.00 am
PRESENT
The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council (Items 1 and 2)

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department (Items 1 and 2)

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment (Items 1 and 2)

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade (Items 1 and 2)

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales
SECRET

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

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

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal (Items 1 and 2)

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon David Ennals MP
Minister of State for Foreign and Commonwealth Affairs

Mr. Joel Barnett MP
Chief Secretary, Treasury

Mr. Robert Sheldon MP
Minister of State, Civil Service Department (Item 1)

(SECRETARIAT)

Sir John Hunt
Mr P Benner (Item 1)
Mr J A Hamilton (Items 2 - 4)
Mr J Anson (Item 2)
Mr H F Ellis-Rees (Item 4)
Mr R G S Johnston (Item 3)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>DISPERSAL OF GOVERNMENT WORK FROM LONDON</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>ECONOMIC STRATEGY AND PUBLIC EXPENDITURE</td>
<td>5</td>
</tr>
<tr>
<td>3.</td>
<td>INTERNATIONAL PROPERTY DEVELOPMENT (INDUSTRIAL) LIMITED</td>
<td>12</td>
</tr>
<tr>
<td>4.</td>
<td>PROGRAMME ANALYSIS AND REVIEW</td>
<td>13</td>
</tr>
</tbody>
</table>
1. The Cabinet had before them a memorandum by the Lord President of the Council about the Dispersal of Government Work from London (C(74) 76).

THE LORD PRESIDENT OF THE COUNCIL recalled that the Labour Party, when in opposition, had criticised the recommendations in the Hardman Report as inadequate. It was therefore essential that the total number of posts dispersed should not be significantly less than the 31,000 recommended in the Report; but his own proposals envisaged a much more satisfactory distribution of the dispersed posts so as to give the maximum benefit to the assisted areas, and in particular to Scotland, the North East, the North West and South Wales. The Civil Service Department (CSD) were satisfied that the proposed programme, which would be spread over a period of about ten years, was perfectly feasible. Intense expectations and interest had been aroused in the regions and it was essential that they should not be disappointed. There had been consultations with departmental Staff Sides and with the National Staff Side, and a recent meeting which he had had with the latter had been cordial and constructive. In general, dispersal on the lines proposed was likely to be acceptable to the Civil Service trades unions; but it would be important to ensure that the proposals were presented as sympathetically as possible and that the transfer terms available to the affected staff were kept under review. The Government were committed to make a statement before the recess; and he proposed to make an announcement in the House of Commons on 30 July on the lines of the draft annexed to his memorandum.

In discussion, it was argued that it was essential that a substantial number of posts should be dispersed to the assisted areas, and in particular to Scotland, where the local authorities in the Glasgow area had the capacity and the willingness to accept a substantial measure of dispersal. Tactful handling of the Staff Side interests was essential; this was strongly borne out by the move of the Post Office Savings Bank to Glasgow ten years ago, which had initially caused considerable difficulty because of insensitive handling but had ultimately proved highly popular with the staff. In fact, considerable good will could probably be expected from the National Staff Side, having regard to the fact that more than half of the total number of Civil Servants were already working outside London. It would, however, be essential that the CSD should give Departments affected by dispersal every possible help for example with the installation of the most satisfactory and up-to-date communications systems where rapid transmission of information was essential.
In further discussion the following points were made:

a. 8,000 staff of the Ministry of Defence had already been dispersed from London. It had been agreed that a further 4,500 should be moved to Cardiff and one thousand to a number of locations outside London. It was necessary to secure the support of the Staff Side to the rationalisation of research and development establishments, which was already involving the dispersal of one thousand posts from London and would shortly affect a further 1,600 posts. Moreover, the Defence Review was likely to lead to the loss of 2,000 - 3,000 posts; in these circumstances the proposed dispersal of 6,000 posts to Glasgow would be unacceptable. It would involve serious operational difficulties; it would call for capital expenditure estimated at £31 million and additional annual costs of £15 - £20 million - a good deal of the latter was accounted for by the excessively high travelling costs which would become necessary following a move to Glasgow; and it would be totally opposed by the Staff Side, who would raise much less objection to a move to some other location, such as Teesside, Merseyside or Plymouth. As against this, it was argued that the proposal could be presented to the Staff Side in a more favourable light; that the staff to be moved to Glasgow should be chosen so as to cause the least administrative inconvenience and confer the maximum cost benefit; and that the moves could if necessary be spread over a considerable period.

b. It would be helpful if the Agricultural Research Council could move to Swindon rather than Merseyside. This would lead to the grouping together of a number of research councils and would thereby help career prospects. Moreover, most of the farms and experimental institutes being supervised by the Council were in the south of England.

c. The 985 Foreign and Commonwealth Office (FCO) staff proposed for dispersal were in small groups, most of which were in fact unsuitable for dispersal - sometimes because they were engaged on duties specifically related to London. There were substantial objections to moving the staff of the London Passport Office to Merseyside, since this would reduce the service available in London to a lower level than was available in any other capital city. It would in any
event be necessary to continue to provide a counter service. There would be the greatest difficulty in finding more than about 300 posts suitable for removal from London.

d. There were weighty objections to moving the Immigration and Nationality Department of the Home Office from Croydon, where it had moved only two years ago. The Office at present handled about 200,000 personal inquiries a year. Most of them came from people living in or near London, many of whom had an imperfect command of English so that inquiries by letter or telephone would not be satisfactory. Half of these inquiries required reference to personal files and no communications system could provide for this. Moreover, it was important that there should be close contact between the Immigration and Nationality Department and immigration officers, most of whom were stationed at Heathrow, Gatwick and south coast ports, and who frequently had to deal with cases of the greatest urgency. It would not be practicable to move the main division to Merseyside and retain a counter service in Croydon; and the proposed dispersal could be achieved only at the cost of a very serious decline in the standard of service offered to the public in what was a particularly sensitive area. If posts from the Home Office were to be dispersed from London they should be found in some less sensitive part of the Department.

e. It would be undesirable to come to a decision about the location of the Manpower Services Commission until the completion of the study of this matter which the Commission itself was carrying out. It would however be acceptable for any statement to indicate that the Commission would be located outside London.

THE PRIME MINISTER, summing up the discussion, said that several of the Ministers affected by the Lord President's proposals had expressed very strong opposition to them. The Cabinet appreciated the force of these objections but were satisfied that the total number of posts dispersed must be very close to the 31,000 recommended in the Hardman Report and that they must be distributed so as to provide the maximum help for the assisted areas. They therefore approved the detailed proposals in paragraph 4 of the Lord President's memorandum, subject to three modifications. First, they
accepted that it would not be practicable for the FCO to find as many as 985 posts for dispersal to Merseyside and agreed that a figure of 500 should be substituted. The details should be worked out between the Foreign and Commonwealth Secretary and the Lord President. Secondly, it would be undesirable to move the Immigration and Nationality Department of the Home Office from Croydon; instead, the Home Secretary, in consultation with the Lord President, should identify one thousand posts elsewhere in the Home Office which could be dispersed from London to Merseyside within the next ten years. Thirdly, while it could be indicated that the 750 staff of the Manpower Services Commission (or failing that an equivalent number from the Department of Employment) would be dispersed, the precise location could not be determined until the Commission's own review had been completed. The Lord President was authorised to make a statement in the House of Commons on 30 July announcing the Cabinet's decision; the text appended to his memorandum should be amended to take account of the agreed modifications, and some further verbal amendments would be desirable so as to make it presentationally more acceptable to the Staff Side - in particular, it should indicate the long period over which the moves from London would be taking place. The CSD should give Departments all possible help over consultations with Staff Sides, the presentation of the decisions to staff and the actual movement of staff when that stage was reached. They should also ensure that the most efficient communications systems were available to offices which were moved to the regions and that any research needed further to improve such systems was put in hand; and the Minister of State, CSD should let him have a report on these matters.

The Cabinet -

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

2. Invited the Lord President of the Council to announce the Cabinet's decisions as indicated in the summing up.

3. Invited the Minister of State, CSD to submit a report to the Prime Minister on the lines indicated in the summing up.
2. The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(74) 81) on public expenditure to 1978-79. They also had before them a memorandum by the Central Policy Review Staff (CPRS) (C(74) 79) on the economic framework for the discussion of public expenditure; and a note by the Chancellor of the Exchequer (C(74) 80), to which was attached the 1974 Report of the Public Expenditure Survey Committee (PESC).

THE PRIME MINISTER said that in April the Cabinet had agreed the procedure for the public expenditure review on the understanding that this implied no commitment to a particular balance between public and private expenditure, nor to decisions on particular programmes. They had also wanted to discuss the Government's economic strategy before taking decisions on expenditure. Discussion of the medium-term strategy had been delayed by consideration of the Chancellor's short-term economic measures; and it would clearly not be possible for the Cabinet to settle the individual public expenditure programmes before the Recess. The main purpose of this discussion was therefore to have a broad review of the strategy for public expenditure and to settle the overall ceiling over the next four years as against the resources for private consumption; and to leave over the details of the individual programmes until the autumn.

THE CHANCELLOR OF THE EXCHEQUER said that the basic assumption underlying his paper was that the economy would grow at about 3 per cent a year, equivalent to about £2,000 million a year at present prices. Part of this, which he had put at £400 million would need to be devoted to increasing the rate at which the balance of payments deficit was being reduced. This should enable the non-oil deficit to be eliminated by about the end of 1975, and the oil deficit by 1978-79. Even on this basis, we would by then be paying £1,500 million a year in interest charges on the accumulated deficit, and this would absorb about one-half of the revenue from North Sea oil. In order to maintain the assumed level of economic growth, and eventually to improve on it, it would be necessary to put about £500 million a year into additional investment, whether in the public or private sector. He had also assumed that £500 million a year would be absorbed by higher earnings. This would permit an increase of 1 ½ per cent a year, which would accommodate special claims such as equal pay, improvements in low pay, and efficiency payments, but would not otherwise provide for a general increase in the real level of earnings, or allow for cases where the Trades Union Congress (TUC) guidelines were exceeded. It would imply an increase in real private consumption (including that financed by social security payments) similar to that experienced
when the Government were last in office. On these assumptions, £700 million a year would be left for increased public expenditure, equivalent to an annual increase of 2\(\frac{1}{2}\) per cent in demand terms. This was in fact equal to the rate of increase which had emerged from the planning exercise embodied in the PESC report. It should be sufficient to finance about half of the improvements embodied in the Labour Party's election manifesto.

He agreed with the analysis in the CPRS memorandum, including the comment that some of his assumptions were optimistic. There was a particular problem regarding defence, where, despite the cuts in prospect, it would prove difficult to hold expenditure down to the present level, which implied very substantial reductions in the long-term costings. A higher growth in total public expenditure could only be obtained if real earnings rose more slowly than he had assumed. However, as the assumed level of 1\(\frac{1}{2}\) per cent a year was absorbed by special claims, this would imply an actual fall in the general real level of earnings, and he did not believe that workers on the shop floor would be prepared to accept such a situation over a four year period.

If a growth rate of 2\(\frac{1}{2}\) per cent for public expenditure was accepted, any increase in one programme must come either from reductions in other programmes or from the contingency reserve. The contingency reserve which had been included in the PESC report rose to £1,000 million by the end of the period. The claims on it, particularly from social security, already greatly exceeded this figure; and it would be unwise to commit it all at once. He proposed therefore that only half of the reserve should be committed at this stage, and the allocation of this would require further discussion. He asked the Cabinet to agree with the recommendations in paragraph 9 of C(74) 81, including the proposal that the rate of growth of public expenditure should be held to 2\(\frac{1}{2}\) per cent in demand terms. He would then discuss with his colleagues the implications for particular programmes. The Government necessarily had to act under great economic constraint, but he believed that both the Labour Party and the country at large recognised the present limited scope for increases in both private and public expenditure.

In discussion, it was argued that the Government's whole economic policy was critically dependent on the social contract. If the TUC were to persuade their members to adhere to this, provision must be made for the special claims of equal pay, the low paid, and efficiency payments. Some parts of public expenditure were, however, also important for the social contract, while others were necessary to achieve greater industrial productivity. If expenditure had to be limited to the levels indicated by the Chancellor of the Exchequer, very serious
questions of priorities would arise between the different programmes. It seemed imperative, therefore, to find some way out of the constraints imposed by the conventional approach, which had been unsuccessfully adopted during the last Labour Administration. A more fruitful approach might be to concentrate on ways of getting greater increases of production. Experience during the 3-day week indicated that remarkable improvements could be obtained; and with more industrial democracy, and a social contract, even greater improvements should be attainable. On the other hand, the assumed growth rate of 3 per cent was already higher than the average achieved during the post-war period, and experience during that period had illustrated the imprudence of trying to spend the fruits of growth before they had been obtained. Improvements in productivity would, in any case, take time to mature, and in the meantime it was essential that planning should proceed on a realistic basis.

In further discussion, it was argued that there was a danger of inconsistency between the decisions taken on public expenditure, and the measures of demand management taken in the shorter term. In order to deal with the prospect of rising unemployment it might be preferable to increase expenditure programmes rather than taking measures like the recent reduction in VAT and the increase in the regional employment premium, which had a lower priority than other expenditure on industrial assistance. It was also undesirable to hold down the level of the major expenditure programmes, and then find it necessary to spend money on emergency programmes of winter works of lesser value to the community. The action taken to manage the economy in the short-term deserved as thorough collective consideration as the medium-term planning of public expenditure. On the other hand, it was argued that most public expenditure did not provide a satisfactory tool of short-term economic management because increases, once made, could not readily be reversed. Other measures therefore had to be used as short-term regulators. It might nevertheless be necessary to take some action during the coming months to help the construction industry which was facing a serious drop in activity.

In subsequent discussion, the following points were made:-

a. More sophisticated analysis was needed of some of the expenditure figures, since different types of expenditure, eg expenditure on existing assets, transfer payments, etc. had different demand effects. More information was also needed about the effect of public expenditure on the distribution of income and wealth, and the incidence of the expenditure between different social categories. For example, subsidies to nationalised industries to enable them to hold down their prices probably had the effect of
subsidising the better-off, as well as increasing the need for capital investment. It should be possible to redeploy the expenditure on such subsidies towards social expenditure, and possibly food subsidies. The economic categories of expenditure could also be misleading. For example, Government assistance to private industry affected the public sector borrowing requirement, while the general category of investment included non-productive expenditure such as the construction of bingo-halls. Consideration should be given to measures for holding back such non-essential expenditure, although it would not be appropriate to introduce such measures at a time when the construction industry was in difficulties.

b. The Government would be open to criticism if public expenditure did not rise as fast as the gross national product. It might be worth considering whether this could be achieved by asking those with incomes above the average to accept a reduction in their real level of consumption. The amount of extra revenue which could be obtained from this source was, however, very small. For example, the confiscation of all incomes above £7,000 a year would bring in only about £110 million. Alternatively, if the threshold for the higher rates of tax were lowered to 1½ times the average income, this again would only bring in about £110 million. Under the Chancellor’s proposals, public expenditure would already be rising nearly twice as fast as private consumption.

c. The programmes described in the PESC report would involve very substantial reductions, going even further than the cuts imposed by the previous Administration; and the difficulties would be further intensified by demographic changes. In education, no provision could be made in 1975-76 for nursery education or for the replacement of obsolete school buildings; and there would need to be cuts in the programmes for handicapped children, non-advance further education, and higher education, as well as increases in school meal charges. In health and social services, many important projects would be deferred for up to three years. The average life of the stock of hospital buildings, which would have been about 50 years under the programme envisaged by the previous Administration, would be pushed up towards 60 years. There would also be a backlog in maintenance expenditure of about £100 million. The housing programme was in serious trouble, and the cuts in transport expenditure had been taken to the point where there was a danger of collapse in the transport services. The cuts in water and sewerage would also be very damaging, and would impede the growth of housing.
d. On the other hand, the standards set for equipment and buildings in the education and hospital programmes seemed in some cases to be unduly lavish in the present and foreseeable economic circumstances. Unnecessary constraints were being imposed by increasingly expensive technologies. It was arguable that it would be better to cut down on standards in order to enable more projects to go forward. Similarly, many young couples might prefer to see a programme of cheaper housing rather than have to wait for years to obtain a house.

e. The pressure on local authority rates was becoming very serious, and attempts to restrain their expenditure by means of the rate support grant had been unsuccessful. A similar pressure on the rates could be expected in Scotland in 1975, when reorganisation took effect there. The Government's approach to local authorities on expenditure questions should be consistent: it was wrong for the Government to be sending out circulars encouraging improvements in a wide range of services at the same time as they were exhorting authorities to restrain their total expenditure.

f. Given the constraints on private consumption and public expenditure as a whole, the discussion of individual programmes must proceed on the basis that no expenditure should be regarded as sacrosanct, and any new proposals should be subject to particularly searching scrutiny. It was unrealistic to suppose that there could be any escape from these constraints by going over to a siege economy. A solution would have to be found within the framework of a mixed economy, with a suitable blend of greater industrial efficiency and social idealism.

g. If the Government were prepared to take the people into their confidence, there were reasonable grounds for believing that they would respond to a call to put first things first. It would, however, be necessary to get a greater measure of understanding that increased social expenditure formed a part of the total standard of living of the community. It would also be necessary to explain frankly the limitations on the real improvement in the standard of living during the coming years.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had had a most valuable first discussion of the problem which faced them in a particularly difficult situation. A number of important points had been made. For example, attention had been drawn to the critical importance of the underlying growth in production, in which it had been suggested that spectacular
improvements might be obtainable. Public expenditure plans could not be based on such an assumption, which even if realisable would probably not afford much help in the earlier years. The Secretaries of State for Employment and Industry should however circulate a joint paper indicating concrete steps which they considered would help to promote more rapid growth. The CPRS should examine the scope both for savings and for wider provision through greater austerity in the standards of equipment and buildings financed from public sector programmes, including the possibility of low cost housing. The Chancellor of the Exchequer, in consultation with the CPRS, should also examine the other points made in discussion: in particular, there should be a study of ways of restricting less-essential construction expenditure in the private sector; and possibly of avoiding emergency 'winter-work' programmes which tended to distort priorities between projects. In the meantime the Cabinet approved, as a general guideline, the overall target for public expenditure proposed in paragraph 9a of C(74) 81. They also agreed that separate discussion would be needed of expenditure on the matters listed in paragraph 9b and d of that paper, and the Chancellor of the Exchequer should arrange this as necessary. As regards the other programmes, Ministers should reflect on the position in the light of the Cabinet's discussion and the Chancellor's paper, and should then have bilateral talks with the Chancellor of the Exchequer. In the light of these talks, the Chancellor of the Exchequer should circulate a further paper as early as possible in September, summarising departmental proposals for additional expenditure and suggesting where any necessary countervailing savings might be found. At that stage, Ministers might wish to circulate papers of their own to Cabinet, but they should not do so until after the bilateral talks had been completed.

The Cabinet -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.

2. Approved as a general guideline the recommendation in paragraph 9a of C(74) 81.

3. Invited the Chancellor of the Exchequer, in the light of his further bilateral discussions with Ministers, to circulate a further memorandum to the Cabinet as proposed by the Prime Minister in his summing up.
4. Invited the Secretaries of State for Employment and Industry to circulate a joint paper containing specific proposals for increasing the underlying rate of economic growth.

5. Invited the Chancellor of the Exchequer and the Central Policy Review Staff to examine the other points made in discussion, as indicated by the Prime Minister in his summing up.
The Cabinet had before them a memorandum by the Lord President of the Council (C(74) 82) about Government assistance to maintain employment at the factory of the former International Property Development (Industrial) Ltd (IPD (Industrial)) at Kirkby.

THE SECRETARY OF STATE FOR INDUSTRY said that the Ministerial Committee on Public Enterprise had agreed on 11 June that IPD Industrial should be allowed to go into receivership, and that a feasibility study should be undertaken to see if a viable scheme could be found for the use of the factory. He had been authorised to tell the Receiver that the Government would be a potential buyer for the factory and should be given an opportunity to bid before it was sold to a third party; and to tell the unions, without commitment, that the Government were doing their utmost to find a way to enable employment to be provided for the work force. Consultants had been commissioned to prepare a feasibility study for the use of the factory; it was estimated that this would take about six months to complete.

The Receiver had said he could provide employment for 450 workers at the factory, to maintain the viable parts of IPD (Industrial)'s former activity, but the work force had refused to accept this and had sat in, insisting that jobs must be found for everyone.

He had proposed to the Ministerial Committee on Industrial Development (IDV) on 23 July that the Government should acquire the assets from the Receiver and engage the consultants to manage the enterprise to give employment to an additional 150 men for six months on a break even basis, while research for other ways of using the plant went on; and that the unutilised 500 workers should be maintained on full pay. The majority of the Committee, with the Chief Secretary, Treasury reserving the Chancellor of the Exchequer's position, had been prepared to agree to the acquisition of the assets to ensure employment for 600 men, although they had not agreed to the further proposal that the unutilised workers should be retained.

He had now heard however that the workers were prepared to share out the jobs available so that no more than 450 would be employed and on the payroll at any one time. On this basis they would co-operate with the Receiver who, for his part, would release holiday pay at present held in a blocked account. He therefore sought agreement to the Government acquiring the assets to provide employment in the way he had described.
THE PRIME MINISTER, summing up a brief discussion, said that the Secretary of State for Industry should tell the Receiver that the Government remained a potential buyer for the factory and might put in a bid; but he should not offer to acquire the assets at this stage. The proposal for sharing out the jobs the Receiver could offer appeared to get over the earlier difficulty of paying 500 men for whom there would be no work, but the Secretary of State should arrange for this to be urgently examined by his officials, in consultation with the Treasury and the Department of Employment. If necessary, he should bring the matter back to the Cabinet early in the following week.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Industry to be guided accordingly.

4. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(74) 78) about programme analysis and review (PAR).

THE CHIEF SECRETARY, TREASURY, invited the Cabinet to endorse the proposal that PAR should continue on the basis of the procedure outlined in Annex 1 to C(74) 78. The memorandum explained that PAR was a selective programme of analytical studies taking particular aspects of policy in turn over time. The system had originally been intended to operate on an annual cycle, but this had proved too rigid; none the less the concept itself was valuable, and the arrangement for central review and collective consideration by Ministers helped to counter the inertia in expenditure programmes and ensure that the options for new programmes were properly exposed. The procedure now recommended would retain the interdepartmental machinery for formulating the programme collectively, through a committee of officials under the same Treasury chairmanship as the Public Expenditure Survey Committee; and the central Departments and the Central Policy Review Staff would continue to be involved both in this process and at key stages in each individual study; it would however discard the rigidity of a strict annual cycle. The memorandum also recommended that there should be no change in the previous practice whereby the list of subjects under study was not publicly revealed.

The Cabinet -

Approved C(74) 78.
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 30 JULY 1974
at 12.00 noon

PRESENT

The Rt Hon Harold Wilson MP,
Prime Minister

The Rt Hon Edward Short MP,
Lord President of the Council

The Rt Hon Roy Jenkins MP,
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP,
Secretary of State for the Environment

The Rt Hon Eric Varley MP,
Secretary of State for Energy

The Rt Hon Barbara Castle MP,
Secretary of State for Social Services

The Rt Hon Roy Mason MP,
Secretary of State for Defence

The Rt Hon William Ross MP,
Secretary of State for Scotland

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

The Rt Hon Lord Shepherd,
Lord Privy Seal

The Rt Hon Lord Elwyn-Jones,
Lord Chancellor

The Rt Hon Denis Healey MP,
Chancellor of the Exchequer

The Rt Hon Michael Foot MP,
Secretary of State for Employment

The Rt Hon Shirley Williams MP,
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP,
Secretary of State for Industry

The Rt Hon Reginald Prentice MP,
Secretary of State for Education and Science

The Rt Hon John Morris QC MP,
Secretary of State for Wales

The Rt Hon Harold Lever MP,
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP,
Parliamentary Secretary, Treasury
SECRET

SECRETARIAT
Sir John Hunt
Mr P Benner (Item 1)
Mr J Anson (Item 2)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>NATIONAL SUPERANNUATION</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>TAXES ON CAPITAL</td>
<td>3</td>
</tr>
</tbody>
</table>
The Cabinet had before them a memorandum by the Secretary of State for Social Services about National Superannuation (C(74) 84), to which was appended a draft White Paper.

The Secretary of State for Social Services said that much of the credit for the very ingenious proposals for improved long-term pension arrangements rested with the Minister of State in her Department, Mr O'Malley. The main principles which any scheme adopted by the present Government would have to satisfy were that it should afford an adequate earnings-related pension for everyone; provide a role for good occupational pensions schemes; be simpler than the proposals put forward by Mr Crossman in the time of the last Labour Government; make some improvement in the position of existing pensioners; provide for equal treatment for women and for an element of redistribution in favour of the lower paid; and offer proofing against inflation. Her proposals satisfied these requirements. The benefits proposed were outlined in the memorandum she had circulated. The base level pension would be revalued in line with average national earnings and the remainder of the pension would be price protected. It would be assumed that the rate of contributions at the start of the scheme would be not more than 16½ per cent. This compared with a contribution of 14½ per cent as from April 1975 and reflected a reduction in her original proposals in the light of discussions with Treasury Ministers. Employees who had been contracted in would be paying 6½ per cent; those who had been contracted out would be paying 6½ per cent up to the base level and probably 4 per cent on the remainder of their earnings; but the detailed arrangements for contracting out could not be finalised pending the completion of consultations with the interests concerned. The period of maturity would be 20 years and pensions would be calculated on the basis of the contributor's best 20 years of earnings. The latter was a particularly attractive provision which would be appreciated by manual workers and by younger workers generally. The proposals envisaged equality of treatment for women, and therefore the married woman's option would be abolished for all women newly entering employment. But, because of the consequential increase in contributions, phasing-in arrangements were needed for women already at work; the White Paper indicated that there were to be discussions with interested organisations but that the Government looked sympathetically at the possibility of allowing the continuance for existing working wives of the right to opt out of cover for short-term benefits. This would significantly reduce the total cost of the scheme and would have the further advantage of largely eliminating the
need for additional staff to operate it. A point still outstanding was the provision to be made for existing pensioners. A general improvement in basic pensions would be very expensive, and the alternative possibility of some form of negative income tax was being examined. In the meantime, alternative forms of words had been included in the draft White Paper; the choice between them would have to depend on the outcome of the discussions which her Department was at present having with the Treasury. The scheme would not involve any additional public expenditure until 1978-79 and the extra cost after the first year would be about £135 million - less, if the married woman's right to opt out from short-term benefits were retained. She sought the Cabinet's agreement to publication of the draft White Paper early in September, if possible before the annual Trades Union Congress.

THE CHANCELLOR OF THE EXCHEQUER said that in principle he endorsed the proposals put forward by the Secretary of State for Social Services. There would be public expenditure implications; but they would not arise until the last year of the present PESC period and it was possible that if there were a general election in 1978-79 the introduction of the scheme might be deferred for a further year. The cost of the proposals would in the long run be very great, and it was important that the White Paper should be presented so that it would have the least effect on confidence in this country's financial stability. He had four comments on the draft which had been circulated. First, whatever might be decided about negative income tax - and the prospects of proposals being worked out did not at present seem promising - he strongly preferred the second of the two alternative versions of paragraph 9 of the foreword. Secondly, paragraph 14 of the draft White Paper itself should indicate that the part of the pension above the base level would receive price protection rather than "no less than" price protection. Thirdly, it was arguable that the proposals for widows and widowers were unduly favourable and it would therefore be desirable to review them. Fourthly, the wording of paragraphs 36 and 38 should be reviewed to reflect the fact that the figure of 16½ per cent for the initial contribution was to be regarded as a maximum.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet congratulated the Secretary of State for Social Services and the Minister of State on having produced an ingenious and acceptable set of proposals. They agreed that a White Paper should be published early in September, if possible before the annual Trades Union Congress. The draft which had been circulated was agreed, subject to examination by the Chancellor of the Exchequer and the Secretary of State for
Social Services of the points which had been raised. In the light of their consultations, any necessary amendments should be made to the draft, and the Cabinet need be consulted again only if there were points which the Ministers were unable to settle between themselves. The Secretary of State should consider the issue of a popular version of the White Paper and the provision for Ministers of suitable briefing material at the time of publication.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Social Services, in consultation with the Chancellor of the Exchequer, to proceed accordingly.

2. The Cabinet considered taxes on capital. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

30 July 1974
THE CHANCELLOR OF THE EXCHEQUER said that the Government were committed by their Election Manifesto to measures of redistribution of wealth as well as of income. The only tax on wealth at present was estate duty, which was widely avoided by lifetime gifts and trusts. If a wealth tax was not to be similarly avoided, a tax on gifts was also indispensable. He had therefore already announced in his Budget a new gifts tax which would have immediate effect and for which the legislation, which would be very complicated, would be introduced in the second Finance Bill. He had undertaken to give further information about the tax, and this would now be published in a White Paper. The rates of tax would be lower than those of the present estate duty, but the eventual yield would be higher, which was an indication of the extent to which estate duty was avoided at present. The most complex provisions would relate to trusts, where the general principle would be that the charge to tax should be neither greater nor less than the charge on assets held absolutely. The exemption for gifts to national heritage bodies would continue. The present relief from estate duty for business and farm assets would be discontinued, but following discussion in the Ministerial Committee on Economic Strategy, the draft White Paper was being modified to show more recognition of the problems faced by small businessmen and farmers.

He had also accepted an obligation to publish a Green Paper on the wealth tax. This tax would be a new departure in this country, although other countries had had similar taxes for a considerable time. The Green Paper would indicate the broad shape and structure of the tax, and explain the main difficulties, suggesting alternative solutions where appropriate. It would be proposed that the Green Paper should be referred to a Select Committee of the House of Commons. It would not be possible to include the necessary legislation in a spring Finance Bill in 1975, although it might well be possible to include it in an autumn Finance Bill if there was one.
Otherwise it would have to be deferred until the 1976 Finance Bill, in which case the valuation and the first payments of the new tax would take place in 1977. It was proposed that the starting point for the tax should be £100,000, rather than the figure of £50,000 which had been previously envisaged. This was necessary in order to avoid an unmanageable burden on the Inland Revenue, and it also recognised the effect of inflation since the figure of £50,000 was originally suggested. Depending on share values, the tax would affect one in every 200 to 300 of the population. The tax would start at 1 per cent, and two possible illustrative scales would be indicated, yielding approximately £200 million and £300 million respectively. Any special exemption for works of art would be associated with a requirement that they should be placed on public display, but household goods might be exempted below a specified limit. When the wealth tax had been introduced, it should be possible to abolish the investment income surcharge, and also to reduce somewhat the higher rates of income tax. The proposals generally might be felt by some to be insufficiently draconian, but it was preferable to introduce them in a way which would not damage confidence. The important thing was to get the tax onto the statute book, and it would always be possible to change the rates later if necessary.

The proposals in both documents would be provisional. The Green Paper on the wealth tax was intended as a basis for public discussion. The White Paper on the capital transfer tax would sketch out the main principles, but the details would be contained in the Finance Bill. He proposed to publish both documents during the following week.

In discussion, concern was expressed that the taxation of gifts would affect those of relatively modest means. There would however be exemptions for gifts made out of income, for the first £1,000 of gifts made in any one year, and gifts on marriage up to £2,500; and the first £15,000 of the cumulative total of chargeable transfers would also be free of tax. Gifts to charities would also be exempt up to a cumulative limit of £50,000, with half the normal rate of tax applying thereafter. There were difficulties in giving complete exemption for charities because of the unsatisfactory definition of charities in existing charity law. A further effort would however be made to see if complete exemption could be given for gifts to charities falling within some stricter definition included in the Finance Bill for this particular purpose.

In further discussion the following points were made –

a. The special position of agriculture has already been recognised in the draft Green Paper, and agreement has been reached on a passage of a similar kind to be included in the draft White Paper on the capital transfer tax. The effect on agriculture could however still be serious.
b. It had been argued that the rate of tax on lifetime gifts should be somewhat lower than on death, since otherwise the flow of gifts might dry up, to the detriment of the revenue. Any such differential could however probably only be created by increasing the rate of tax payable on death, rather than by decreasing the rate payable on lifetime gifts.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet took note of the Chancellor of the Exchequer's proposals. Further consideration would be given to the point raised in discussion about the taxation of gifts to charities.

The Cabinet -

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

Cabinet Office

31 July 1974
### CONCLUSIONS of a Meeting of the Cabinet

**held at 10 Downing Street on**

**THURSDAY 1 AUGUST 1974**

**at 11.30 am**

**PRESENT**

<table>
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<tr>
<th>Position</th>
<th>Name</th>
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<tbody>
<tr>
<td>Prime Minister</td>
<td>The Rt Hon Harold Wilson MP</td>
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<td>The Rt Hon Edward Short MP</td>
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<td>The Rt Hon Anthony Wedgwood Benn MP</td>
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<td>The Rt Hon Reginald Prentice MP</td>
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<td>The Rt Hon William Ross MP</td>
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<td>Secretary of State for Wales</td>
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<td>Secretary of State for Wales</td>
<td>The Rt Hon Lord Shepherd</td>
</tr>
<tr>
<td>Parliamentary Secretary, Treasury</td>
<td>The Rt Hon Robert Mellish MP</td>
</tr>
</tbody>
</table>
ALSO PRESENT

The Rt Hon John Silkin MP
Minister for Planning and Local Government
(Item 2)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 1)
Mr H F T Smith (Item 1)
Mr P Benner (Items 2 - 4)
Mr K R Stowe (Item 3)
Mr D Evans (Item 1)
Mr R L Baxter (Item 2)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>FOREIGN AFFAIRS</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>COMMUNITY OWNERSHIP OF DEVELOPMENT LAND</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>SOCIAL BEEF</td>
<td>4</td>
</tr>
<tr>
<td>4.</td>
<td>SEX DISCRIMINATION</td>
<td>7</td>
</tr>
</tbody>
</table>
1. THE FOREIGN AND COMMONWEALTH SECRETARY said that at the tripartite talks with the Greeks and Turks at Geneva, the Turks had been particularly difficult. Their forces in Cyprus had ignored the United Nations call for a ceasefire and had continued to bring in reinforcements and to extend the territory under their control while the talks were taking place. The situation had come very close to the point at which the Greeks would have chosen war rather than suffer further humiliation. Agreement on a declaration would probably not have been reached without very close Anglo-American co-operation and in particular the help of the American Secretary of State, Dr Kissinger, who, at his request, had intervened personally with the Turkish Prime Minister, Mr Ecevit. Talks in Geneva would be resumed the following week. He would then try to persuade the Turks to start reducing their forces in Cyprus. It was impossible at this stage to predict what the political future of Cyprus was likely to be, but since the Turkish Foreign Minister, Mr Gunes, had said that Turkey did not want partition of the island, while the Greek Foreign Minister, Mr Mavros, had said that Greece was not seeking Enosis, a federal solution might be possible. The position of Archbishop Makarios in future discussions might be a complicating factor. It was of course for the Cypriots to decide who should speak for them, and Archbishop Makarios was still the legal President of Cyprus, but there was little doubt that the Acting President, Mr Clerides, would be more likely to reach a sensible arrangement with the Turks. The Soviet Union were throwing their weight behind President Makarios. In the United Nations the Soviet Permanent Representative, Mr Malik, had used the veto against a resolution which would have enabled the Secretary General, Dr Waldheim, to issue the necessary instructions to the United Nations forces in Cyprus, including their use in the buffer zone which was to be established around the territory held by the Turkish Army. Mr Malik had claimed that the veto was necessary for procedural reasons and there was some hope that he would not persist in frustrating the purpose of the resolution when discussion in the Security Council was resumed.

The Cabinet -

Took note and congratulated the Foreign and Commonwealth Secretary on the outcome of the first stage of the tripartite discussions.
2. THE SECRETARY OF STATE FOR THE ENVIRONMENT said that considerable progress had been made in drafting a White Paper on the fulfilment of the commitment in the Labour Party Manifesto that land required for development would be taken into public ownership; and the general principles underlying the proposals had been endorsed by a small group of Ministers under the Prime Minister's chairmanship. The proposals envisaged that all development land other than owner-occupied housing would in due course be taken into community ownership, and that the price of acquisition would be the current use value. The principal acquiring agents in England and Scotland would be the local authorities, but in Wales a new national body would probably be set up for the purpose. The local authorities would benefit from the scheme by acquiring land for housing and other public purposes at a reduced cost. Land intended for private development would be disposed of at the market value; and the gains on these transactions would be shared between central and local government, with the major share accruing to the Exchequer. The draft White Paper also said, in a deliberately vague phrase, that the intention was that part of the benefit should help owner-occupiers. The precise way in which this would be done could be settled later; but it was presentationally important to offer reassurance to owner-occupiers. The main difficulties that had been encountered related to the transitional period for introducing the scheme. Because of the shortage of valuers, the unreadiness of some of the local authorities and the danger of reducing the availability of land for housing, a transitional period would be essential, and was likely to be rather longer than some people had expected. This might cause some political difficulty, though he did not believe that it would be serious. During the transitional period the local authorities would have extended powers to acquire development land but would not have a duty to do so; a private market would therefore continue to exist, and this raised the question of how to tax private transactions so as to leave landowners in roughly the same position whether they sold privately or to a public authority. A closely related problem was the price to be paid for public acquisition. One possibility was to use the market value, frozen at the date of the publication of the White Paper, as the price for public acquisition and as the basis of the tax; alternatively, the tax might be based on the cost of the last transaction. An expert Working Party of officials had been set up to study the complex technical problems raised by both courses and would report during August. A revised draft of the White Paper would then be put to the Cabinet with a view to publication in September.

The following points were raised in discussion -

a. It would be a mistake to take an unduly gloomy view of the probable length of the transitional period. Some feared that it might be 9 or 10 years; but, given a crash
programme for training valuers, as little as 4 years might suffice. Moreover it was intended that it should be possible for the complete scheme to be introduced progressively by a series of Orders, which could relate to specified parts of the country - in practice, local authority areas.

b. It was suggested that the White Paper might refer to the arrangements in Letchworth, where a similar scheme had been working satisfactorily for many years and was saving the authority some £300,000 a year.

c. It was suggested that the White Paper might include figures to show the total increases in land values in recent years, so as to indicate the amount of the benefit which was in future to accrue to the community rather than to private individuals.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet congratulated the Secretary of State for the Environment and the Minister for Planning and Local Government on the outcome of the work they had done, and approved their proposals in principle. They took note that the question of taxation and purchase price in the transitional period were to be considered by an expert Working Party. In the light of the conclusions then reached, and of the points which had been raised in discussion, the Secretary of State for the Environment should circulate a final draft of the White Paper to the Cabinet for approval at the end of August or the beginning of September with a view to early publication. Since the broad principles underlying the scheme had now been settled, the Cabinet would at that stage be concerned only with detailed and presentational matters.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretary of State for the Environment to proceed accordingly.
3. The Cabinet resumed their discussion of the European Economic Community's proposals for cheap beef for people receiving social benefits. They had before them a minute to the Prime Minister by the Minister of Agriculture, Fisheries and Food reporting the conclusions of a Ministerial Meeting which had considered the matter.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the group of Ministers who had considered the scheme had agreed in principle, the Minister of State, Department of Health and Social Security dissenting, that the United Kingdom should adopt the scheme. It was to our advantage to do so financially, it would support the successful negotiations that had been completed in Brussels on Community beef arrangements, and since the previous Administration had implemented the social butter scheme it would be politically difficult for the Government not to take up the benefits of this scheme, especially since it would result in a net transfer to the United Kingdom of Community funds. The details of a scheme had still to be worked out but it seemed likely that it could be implemented before the end of the year and could run until 6 April 1975. His own view was that notwithstanding the policy and operational problems involved, the balance of advantage lay overwhelmingly in favour of taking up the scheme.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Government should oppose the scheme on principle. It extended means-tested benefits; and it would also enlarge the poverty trap, since the value of the beef tokens, award of which would be dependent on receipt of supplementary benefit, would be substantial - in the case of a man, wife and four children as much as £1.50 per week. The Government's policies were to oppose means-testing and to cut back, not extend, its application. It would be better, since the scheme could not be implemented before the Autumn, for the Government to enter into no commitment, especially since any short-term advantage would be outweighed by the outcry in April when the subsidy stopped. The operational problems were formidable and her Department could not, in view of its prior commitments, administer the scheme. The most it could do would be to give means of identity to the recipients so that the Post Office could issue coupons over Post Office counters as they had done for social butter.

In discussion it was argued that the social beef scheme was a bad scheme produced by a bad policy, the Common Agricultural Policy (CAP), and it was unacceptable for the Government to have to implement it in the form presented by the Commission, which would confine it only to the poor, who had to identify themselves as such in the shops to benefit from it. The Government had criticised the butter scheme on these grounds and should be consistent. The public...
expenditure entailed could, moreover, be better spent on other things - eg on invalid vehicles. If the effects of the CAP were such that large amounts of beef had now to be eaten this would have been better achieved by distribution to hospitals, schools and other institutions. If the surplus beef had to be eaten via a subsidy to individuals, it should not be on a means-tested basis but should be given to all retirement pensioners, who were a distinct category among recipients of social benefits and could be identified without stigma. It was better to give it to them for 3 months than to the means-tested beneficiaries for 6 or 7 months. On the other hand it was argued that it was not realistic for the Government to spurn the financial benefits which would accrue to the United Kingdom under the scheme when part of its case against the present terms of membership of the EEC was the budgetary burden on this country. And it would be very difficult politically to sustain that position, especially since the losers would only be the people who had, under the previous Administration, benefited by the social butter scheme. The operational problems, though great, were not insuperable and Her Majesty's Stationery Office had reported that all the necessary printing could be done for a scheme starting in November.

In further discussion it was argued that a means-tested scheme of the kind proposed by the Commission was wrong in relation to prices policy generally and because of the adverse economic effects on the beef market. A scheme applicable to all pensioners would not be open to the same objections. Its cost could be found within the existing Votes for food subsidies. The Government should not be inhibited by the precise definition which the Commission chose to give to recipients of "social benefits" but should tell the Commission that it intended to implement the scheme to the same effect but in a way which was acceptable to the British Government. As against this it was argued that the existence of the social butter scheme which was framed in accordance with the Commission's views made this course difficult, and there would be opposition from other member states.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the social beef scheme exemplified the faults in the CAP and was in itself an unattractive scheme. Nevertheless they recognised that it was essential for the United Kingdom to gain what benefit it could from the agreements reached over beef, especially in view of the fact that the Minister of Agriculture, Fisheries and Food had been successful in winning acceptance for our own approach based on deficiency payments. It would be politically impossible to reject the scheme but the Cabinet did not find it acceptable to give cheap beef only to those in receipt of supplementary benefits, since this would involve an extension of means-testing which was wholly inconsistent with the Government's social policies and had been the basis of their opposition to the
social butter scheme. The scheme would have been better conceived if it had directed the beef subsidy to hospitals, schools and residential homes and similar institutions; but since this was not now practicable it should go instead to all those within the social security field who were receiving retirement pensions, without distinction between those who were or were not receiving supplementary pension. A broad and short-lived scheme on this basis would avoid the powerful objections of principle which the Secretary of State for Social Services had put forward, and would also be consistent with the Government's policies on prices generally. The cost of the subsidy should be borne on the Vote of the Department of Prices and Consumer Protection, and administrative costs would be met by the Departments incurring them. The administration of the scheme would be by coupons issued to those eligible through the Post Offices, as had been done for the social butter scheme; and consultations would be required with the relevant staff interests. The Minister of Agriculture, Fisheries and Food should present the Government's approach to the scheme on these lines publicly and, in consultation as necessary with the Foreign and Commonwealth Secretary, should inform the Commission in Brussels that this was how the United Kingdom Government intended to proceed. He should then arrange for the details of implementation to be worked out in consultation between the Secretaries of State for Social Services, Prices and Consumer Protection, and Industry, and the Chancellor of the Exchequer.

The Cabinet -

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

2. Invited the Minister of Agriculture, Fisheries and Food, in consultation with the other Ministers concerned, to proceed as indicated in the Prime Minister's summing up.
The Cabinet resumed their discussion of the action to be taken against sex discrimination.

THE HOME SECRETARY said that, as agreed by the Cabinet at their meeting on 16 July, he had made a general policy statement in the House of Commons and had put in hand work on the preparation of a White Paper. On this there were four points on which he wished to report to the Cabinet. First, he and the Lord Chancellor had reached agreement on the question whether or not the power to seek an injunction should be given only to the Equal Opportunities Commission. Secondly, the question what exceptions were required in relation to insurance had been left for further discussion at the Cabinet's last meeting. His present view was that the Bill should apply to insurance generally but with an exception for State and occupational pensions schemes, which were dealt with in separate legislation; and that in the private field it should allow differentiation in the terms offered to men and to women if, and only if, this could be fully justified on actuarial or other scientifically demonstrable grounds. This however was a matter which he would discuss further with the Secretary of State for Trade on the latter's return to this country. Thirdly, it had been suggested that the police might be excluded. He did not think that this would be practicable; and it should suffice that the legislation would permit the sexes to be treated differently where this was justified by a genuine occupational reason. Fourthly, there was the question of incitement, aiding and abetting. He had in mind that the Bill should allow legal proceedings to be brought only by the Equal Opportunities Commission and not by individuals. This could not be finally settled pending the completion of the discussions currently in progress with the Trades Union Congress (TUC); but in his view, whatever the attitude of the TUC might prove to be, it would not be possible for the Government to accept that the legislation on sex discrimination should contain a substantially weaker provision on this matter than was included in the Race Relations Act. It was desirable that it should be possible to deal with all attempts at incitement and not merely with successful incitement; but it should be borne in mind that it was not proposed to create a criminal offence.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet noted the position which had been reached. The final wording of the White Paper should be settled by the Home Secretary in conjunction with the Ministers principally concerned, and a copy of the draft should also be sent to him. The objective should be to issue the White Paper during the early part of September; the precise date should be settled between the Home Secretary, the Lord President of the Council and the Parliamentary Secretary, Civil Service Department.
The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Home Secretary to be guided accordingly.

Cabinet Office

1 August 1974
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
FRIDAY 2 AUGUST 1974
at 9.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council
(In the Chair for part of Item 4)

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment (Items 1-3)

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services (Items 2 and 3)

The Rt Hon Roy Mason MP
Secretary of State for Defence (Items 1-3)

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Fred Peart MP
Minister of Agriculture, Fisheries and Food
THE FOLLOWING WERE ALSO PRESENT

Mr Robert Sheldon MP
Minister of State, Civil Service Department
(Item 1)

Mr Roland Moyle MP
Minister of State, Northern Ireland Office (Items 1-3)

SECRETARIAT

Sir John Hunt
Mr P Benner (Item 2)
Mr J A Hamilton (Items 1 and 3)
Mr J Anson (Item 4)
Mr H F Ellis-Rees (Item 4)
Mr R L Baxter (Item 1)
Mr R G S Johnston (Item 3)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>UNITED KINGDOM CIVIL SERVANTS IN NORTHERN IRELAND</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>DEVOLUTION</td>
<td>3</td>
</tr>
<tr>
<td>3.</td>
<td>PLANNING AGREEMENTS AND THE NATIONAL ENTERPRISE BOARD</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>Planning Agreements</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>National Enterprise Board</td>
<td>6</td>
</tr>
<tr>
<td></td>
<td>The Introduction</td>
<td>7</td>
</tr>
<tr>
<td>4.</td>
<td>ASSISTED AREA BOUNDARIES</td>
<td>9</td>
</tr>
</tbody>
</table>
The Cabinet considered a memorandum by the Lord President of the Council (C(74) 87) on United Kingdom civil servants in Northern Ireland.

THE LORD PRESIDENT said that in May he had received a deputation from the National Staff Side who had argued strongly in favour of a long-standing claim for an additional one week's annual leave and a special allowance of £150 a year for all United Kingdom non-industrial civil servants serving in Northern Ireland. The Staff Side had said that other good employers in the Province gave their staff additional leave, cash bonuses or free holidays abroad; that Government employees were subject to more stress than other people in Ulster; and that morale was at a low ebb. He did not agree that civil servants were in fact under greater stress than the rest of the Northern Ireland population, but it was certainly true that their conditions were worse than those of civil servants in other parts of the United Kingdom and there was some talk of industrial action. He had promised them that their case would be considered by Ministers collectively. Although the National Staff Side spoke only for the 4,000 non-industrial United Kingdom civil servants serving in Northern Ireland, it would be necessary to extend any concessions to the 5,000 industrial civil servants; the cost of an ex gratia payment of £100 each would be about £900,000 and the notional cost of an extra week's leave would be about £350,000.

The Secretary of State for Northern Ireland was concerned about the possible repercussions, but if the Government did not give some such concession it would stand out as one of the few employers that had failed to do so. There was also a Departmental claim on the Customs and Excise Department for an allowance of £300 a year for the 200 staff employed at the land boundary posts. These staff were exposed to particular danger and discomfort, but if a general concession were made on the lines that he had suggested, he would propose to reject any special concession to the land boundary men.

THE MINISTER OF STATE, NORTHERN IRELAND OFFICE, said that his Secretary of State was against any concession to the United Kingdom civil servants in the Province because of the repercussions. Most of the civil servants in question were Irish and would expect to spend their whole careers in the Province. Many of them were not under any particular stress. If they received any special concession it would be necessary at once to discuss the similar treatment of the 30,000 staff of the Northern Ireland Civil Service. There would then be a case for special treatment for the ambulance-men and the firemen, who faced greater dangers than the civil servants, and for the staffs of many of the other public services in the Province. Because of under-staffing it might prove impossible to give leave concessions to the Northern Ireland public service so that a further cash concession might have to be offered in lieu. Finally the pressure would come on the
industrial firms in the Province, who had not so far followed the commercial firms in offering special concessions to their staff. The total cost to Northern Ireland might amount to about £50 million a year.

In discussion it was argued that the Cabinet should be guided by the Secretary of State for Northern Ireland, who was in a position to judge the repercussions in the Province. There could moreover be repercussions in other parts of the United Kingdom if, for instance, a terrorist campaign were mounted against the police. The proposal would lower the value of the existing concessions to the Army and Post Office in Northern Ireland. On the other hand it was argued that the United Kingdom civil servants in Northern Ireland had worked well throughout the recent disturbances. Unlike many of the staff of the Northern Ireland public services, they had not joined in any political strike. Good management practice required the Government to follow the other employers of comparable staff in offering similar concessions, the repercussive effects of which had been greatly exaggerated. It was suggested that if extra leave or cash allowances were ruled out it would be worth considering concessions on travel, and that if there could be no general concession it would be right to do something for the land boundary men, whose case was recognised by the trade unions as exceptional, and for the resident magistrates, who earned less than their equivalents in Great Britain.

THE PRIME MINISTER, summing up the discussion, said that although many members of the Cabinet clearly had doubts about the proposals they ought to be examined on their merits by the Official Committee on Pay Negotiations. Although it might become relevant to consider the special claims of particular groups like those that had been mentioned, the Committee should first consider the general question of the proposed concessions to all United Kingdom civil servants in Northern Ireland with a view to assessing as accurately as possible what their repercussions would be. The Official Committee should report to the Sub-Committee on Pay Negotiations of the Ministerial Committee on Economic Policy, and the question should be brought back to the Cabinet at the beginning of September.

The Cabinet -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.

2. Invited the Official Committee on Pay Negotiations to proceed accordingly.
2. THE PRIME MINISTER said that, following the issue in early June of the Government's Consultation Document on Devolution, discussions with the interested bodies had been taking place in Scotland and Wales, and their outcome had been considered by a small Ministerial Group under his chairmanship. The Group had then considered what should be the content of the White Paper which the Government were committed to issue in the autumn. Very major issues were at stake - indeed, mishandling of the situation could arguably lead in the long run to the break-up of the United Kingdom: and the Ministers concerned had been very conscious of this danger and of the possible risk of embarking on a process of change which, once started, could not be halted. The Government were publicly committed against separatism and federalism, but on political grounds some move towards devolution was necessary. The Ministerial Group had rejected full legislative devolution on the lines proposed in the majority Kilbrandon Report. They had then considered the possibility of some form of modified legislative devolution, but this raised substantial problems and the majority of the Ministerial Group were against any commitment to it. They had therefore concluded that at this stage the Government should commit themselves only to proposing elected assemblies in Scotland and Wales, the former with some legislative powers and the latter with mainly executive powers. This different treatment of the two countries could be justified on several grounds - the existence of a separate Scottish legal system and of separate Scottish statutes was one; and the differing wishes and expectations in the two countries was another. Accordingly the Ministerial Group had commissioned the preparation of two draft White Papers, one very short and doing little more than announce the decision about the establishment of elected assemblies, the other going into rather more detail. It had been decided that the short version was preferable, but that it should be somewhat expanded, in particular to indicate what had already been done or was being done within the existing constitutional framework in order to increase the extent to which decisions affecting Scotland and Wales were taken in Scotland and Wales, while at the same time stressing the importance of preserving both the unity of the United Kingdom and the principle that the economy must be managed on a United Kingdom basis. It would probably also be desirable to refer to the continuance of the two Secretaries of State and to the retention of Scottish and Welsh representation in the United Kingdom Parliament at its present level. A short White Paper giving a general statement of principle on these lines should be sufficient to meet the immediate political requirement while leaving the Government the maximum room for manoeuvre after the Election.

In discussion it was argued that the Government should have more time to weigh a decision of such historical importance and that it was regrettable that their hand had to some extent been forced by
external political pressures. In the circumstances they had to be alive to political realities: but it would be important for the proposed White Paper to assert the positive argument for the integrity of the United Kingdom and to relate the case for elected assemblies in Scotland and Wales to the problems which would be involved.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet need take no final decision at this stage. Further work should however proceed on the basis of a short White Paper containing a general statement of intent to establish elected assemblies in Scotland and Wales, the former with some legislative powers and the latter with mainly executive powers. It should emphasise the importance of preserving the unity of the United Kingdom and should also bring out what was separately being done to benefit Scotland and Wales. The two Secretaries of State were already revising the sections of prime concern to them: they should do so in the light of the Cabinet's discussion and should also consult the Chancellor of the Exchequer. A revised version of the draft White Paper would be considered by the Ministerial Group at the end of August which would enable account to be taken of discussion at the Scottish Labour Party Conference in mid-August. Following that the matter would come before the Cabinet for a final decision with a view to publication of the White Paper in the first part of September.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. The Cabinet considered two notes by the Secretary of the Cabinet, C(74) 88, to which were attached draft sections of a White Paper on Planning Agreements and the National Enterprise Board (NEB), and C(74) 89, to which were attached draft introductory paragraphs for the White Paper, prepared by the Secretary of State for Industry.

THE PRIME MINISTER said that a first draft of the White Paper had come before the Ministerial Committee on Industrial Development (IDV) on 28 June. In the light of their discussion he had prepared a fresh outline which had been agreed by IDV on 9 July and given to officials as a guideline in preparing a further complete draft. A small group of Ministers under his chairmanship, comprising the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Industry and the Secretary of State for Prices and Consumer Protection had discussed this draft on 29 July and a further draft, reflecting their decisions, had been considered at IDV on 31 July. The draft attached to C(74) 88 reflected the weight of opinion in IDV on the main issues arising from Planning Agreements and the NEB. The introductory paragraphs would be consequential on the decisions reached on the main text; he suggested therefore that the Cabinet should first discuss Planning Agreements and the NEB.

In discussion the following main points were made:

a. In the absence of a statutory requirement some other leverage was needed to ensure that firms entered into Planning Agreements with the Government. For these firms, some proportion of the grants normally payable under the authority of the Industry Act 1972 should be made negotiable. In return, the company could be assured that the rate of grant for projects embarked on under the Agreement would not fall below the rates in force at the time of the Agreement. Labour's Programme 1973 had specifically stated that all incentives and aid to companies should be channelled through the Planning Agreements system; the prodigality of the present system has been sharply criticised by the Select Committee on Trade and Industry. If the White Paper failed to put forward any proposal to control this massive outflow of public funds, people in the regions would see it as a totally missed opportunity on the part of the Government. On the other hand, it was strongly argued that business confidence would be severely damaged by the implication that investment grants and other automatic payments would depend, for firms in the Planning Agreements system, on the discretion of a Minister rather than being received as a right derived from an Act of Parliament. The Government should recognise...
that conditions had completely changed since Labour's Programme 1973 had been prepared; business confidence had declined to an alarming degree and further chopping and changing in Government policy would be disastrous. The draft should therefore make it clear that investment grants, regional development aid and Regional Employment Premium (REP) were not at issue, but that the Government would assess with the company its needs for assistance to support company plans, with particular reference to selective assistance for new employment projects in the regions.

b. The need for a far-ranging review of regional aid was generally agreed, but it was pointed out that to announce this would create uncertainty and be detrimental to business confidence. No statement about the review should be made until an alternative system had been thought out.

c. Assistance for small businesses should be given greater prominence, and the Government's consideration of their problems should be specifically mentioned.

A number of other amendments were discussed and agreed.

In discussion the following main points were made -

d. The degree to which the NEB would be subject to Parliamentary and Governmental control should be given greater emphasis.

e. It should be emphasised that the intention was that all holdings in companies, whether 100 per cent or in part, would be acquired by agreement; the drafting of paragraph 20 should be amended to avoid ambiguity on this.

f. In its existing form, paragraph 23 would cause uncertainty over the circumstances in which the Government might choose to exercise compulsory acquisition, and what Parliamentary authority would be sought. It would be preferable to say that, if in any case compulsory acquisition proved to be necessary, this would normally be authorised by specific Act of Parliament. The rights of private interests to represent their case against compulsory acquisition must be strenuously safeguarded.

g. Paragraph 32 should be expanded to cover the special circumstances of Northern Ireland, and to allow for similar arrangements to those in Scotland to be made for Wales, on the analogy of the reference to Wales in the Secretary of State for Energy's report to Parliament on United Kingdom offshore oil and gas.
A number of other amendments were discussed and agreed.

h. A revision of the paragraphs covered in C(74) 89 was circulated by the Prime Minister and agreed, subject to minor changes.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that investment grants, regional aid and REP should not be made conditional for firms in the Planning Agreements system. The Government would assess with companies their need for any further assistance to their plans with particular reference to new employment projects in the regions. The Government should undertake a review of automatic grants to industry, but this should not be mentioned in the White Paper. Further consideration should be given to helping small businesses, and a clear reference to this should be made. The Secretary of State for Industry would of course also be free to report to the Cabinet on the working of the scheme in the light of experience, but it would be important not to imply in public that modifications might be contemplated.

The NEB should operate in pursuit of its objectives, as defined and expanded in discussion. If compulsory acquisition proved to be necessary, it would normally be by specific Act of Parliament. The Secretary of State for Industry should arrange for his officials to consider further, in consultation with the First Parliamentary Counsel, the procedure to be adopted in cases of extreme urgency. The arrangements for Northern Ireland and Wales should be stated in greater detail.

The Secretary of the Cabinet should arrange for a further draft, incorporating the revisions agreed at the meeting, to be prepared and circulated to the Cabinet on 5 August. If necessary, the small drafting group of Ministers would meet on 6 August to consider any outstanding textual issues. Subject to such clearance, the Secretary of State for Industry should arrange for the White Paper to be published. It was important that Ministers should adhere to the policies now agreed for Planning Agreements and the NEB in public speeches. The Secretary of State for Industry should consider, in consultation with the Foreign and Commonwealth Secretary, whether a popular version of the White Paper might be published by the Labour Party; it should not however be issued as a Government document nor should the cost of producing it fall on public funds. It would be necessary however for the text of any popular version to be cleared with himself and other Ministers concerned.
The Cabinet -

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

2. Invited the Secretary of State for Industry -
   i. To arrange for the First Parliamentary Counsel to be consulted on Parliamentary arrangements for compulsory acquisition in circumstances of compelling urgency.
   
   ii. Subject to final clearance of the text by Ministers, to arrange in consultation with the Lord President of the Council for the White Paper on Planning Agreements and the National Enterprise Board to be published.
   
   iii. In consultation with the Foreign and Commonwealth Secretary to consider whether a popular version of the White Paper might be published under the auspices of the Labour Party.

3. Instructed the Secretary of the Cabinet to arrange for a revised text of the White Paper, incorporating the amendments agreed at their meeting, to be prepared and circulated on 5 August.
4. The Cabinet considered a memorandum by the Secretary of State for Industry (C(74) 86) about possible changes to assisted area boundaries.

THE SECRETARY OF STATE FOR INDUSTRY recalled that at their discussion on 11 July, the Cabinet had decided not to pursue for the time being any changes in assisted area boundaries, but had recognised that the question might need to be reopened in the light of the economic measures which the Chancellor of the Exchequer had then been preparing. In the event, these measures had significantly strengthened the case for making some immediate changes in assisted area boundaries; particularly the doubling of the Regional Employment Premium (REP), which had increased substantially the financial advantage to manufacturing industry of the development areas (DAs) over the intermediate areas (IAs), and had already brought strong representations from Edinburgh and to a lesser extent from Cardiff and Newport. He believed that the case for upgrading Edinburgh, Leith and Portobello was now overwhelming, and the case for Cardiff was closely linked politically with that for Edinburgh. Merseyside and North West Wales would both gain from the doubling of REP, but their position relative to the rest of the DAs was unchanged, and the urgent need for further action remained. The position of Chesterfield was a major anomaly, and it was generally accepted that if any areas were to be upgraded then Chesterfield should be given IA status at the same time. The cost of these measures would now be some £25 million a year; they could be made by Statutory Instrument, which could be laid and brought into force in the Recess. There were already indications that further measures might be needed to assist the regions over the problems of the coming winter. These proposals were a means by which some real good could be done immediately to areas in need. He therefore invited the Cabinet to agree to the immediate upgrading of Merseyside, North West Wales, the Scottish IA, the Cardiff travel-to-work area, and Chesterfield.

THE CHANCELLOR OF THE EXCHEQUER said that the proposed changes would further dilute the effectiveness of regional benefits and would stimulate new demands for upgradings elsewhere. Indeed, such changes would be an extension of the indiscriminate and unselective aid which had been criticised during the Cabinet's discussion earlier that morning. The measures he had recently announced had made a significant improvement in the position of Merseyside and North West Wales: for example, the doubling of REP would bring an extra £20 million a year to Merseyside, compared with about £2 million which would come from upgrading it to a special development area (SDA). It would be preferable to review the matter again at a later stage when the possibility of compensating downgradings could be considered. In the meantime, he urged the Cabinet to reaffirm their earlier decision not to make any changes at present.
THE SECRETARY OF STATE FOR SCOTLAND said that the problems of Edinburgh had begun in 1963, and had been accentuated by the previous Administration's decision not to proceed with the plans to site a large tax office there. The doubling of REP had now put industry in the Edinburgh area at a severe competitive disadvantage compared with the whole of the rest of Scotland and the North of England. Male unemployment in Edinburgh was higher than the average rate for the whole of Scotland, and double that for the United Kingdom. Merseyside and Cardiff were due to benefit from the dispersal of Government jobs. There was an overwhelming case on merits, therefore, for the upgrading of Edinburgh.

THE SECRETARY OF STATE FOR WALES said that although he had modified his original proposals for changes in Wales, he must continue to press for the upgrading of North West Wales and Cardiff. North West Wales was indeed an outstanding anomaly, where unemployment now ranged between 8.5 and 9.5 per cent; and though the absolute cost of conferring SDA status would be small, the effect in psychological terms would be very marked. Like Edinburgh, the position of Cardiff in relation to the surrounding area had been significantly worsened as a result of the doubling of REP, and the high rate of male unemployment there was not likely to be improved by the jobs available from the dispersal of Government offices. Nor would it be feasible, on broad political grounds, to discriminate between the treatment of Cardiff and Edinburgh.

THE LORD PRESIDENT, summing up the discussion, said that while they recognised the need, in the longer term, for a more thorough review of assisted area boundaries, the Cabinet agreed on balance that the doubling of REP made some immediate changes necessary; and they accepted that the proposed package had to be considered as a whole. They therefore approved the changes now proposed by the Secretary of State for Industry. The Secretary of State for Industry should agree the terms of a suitable announcement with the Chancellor of the Exchequer and the other Ministers concerned, and consult him about its timing.

The Cabinet -

1. Agreed that Merseyside and North West Wales should become special development areas, that Edinburgh, Leith and Portobello and the Cardiff travel-to-work area should become development areas, and that Chesterfield should become an intermediate area.
2. Invited the Secretary of State for Industry, in consultation with the Chancellor of the Exchequer, and the Secretaries of State for Employment, for Scotland and for Wales, to prepare a suitable announcement, and consult the Lord President of the Council about its timing.

Cabinet Office

2 August 1974
Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 5 SEPTEMBER 1974
at 10.00 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon James Callaghan MP
Secretary of State for Foreign and
Commonwealth Affairs (Items 1 - 4)

The Rt Hon Roy Jenkins MP
Secretary of State for the Home
Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment
(Items 1 - 5)

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and
Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

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

The Rt Hon Lord Elwyn-Jones
Lord Chancellor
(In the Chair for Items 5 and 6)

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and
Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry (Items 1 - 4)

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster
THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General (Item 2)

Mr Robert Sheldon MP
Minister of State, Civil Service
Department (Item 4)

The Rt Hon John Silkin MP
Minister for Planning and Local
Government (Item 2)

Mr K R Stowe (Items 1, 2, 4 and 5)
Mr D Evans (Items 3 and 6)
Mr R L Baxter (Item 2)
Mr J Bantock (Item 1)
Mr J B W Robins (Item 5)
Mr N Summers (Item 4)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 3 and 6)
Mr K R Stowe (Items 1, 2, 4 and 5)
Mr D Evans (Items 3 and 6)
Mr R L Baxter (Item 2)
Mr J Bantock (Item 1)
Mr J B W Robins (Item 5)
Mr N Summers (Item 4)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>DEVOLUTION</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>COMMUNITY OWNERSHIP OF DEVELOPMENT LAND</td>
<td>4</td>
</tr>
<tr>
<td>3.</td>
<td>EEC RENEGOTIATION</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Regional Aids</td>
<td>7</td>
</tr>
<tr>
<td>4.</td>
<td>SOCIAL BEEF</td>
<td>10</td>
</tr>
<tr>
<td>5.</td>
<td>A NEW SCHEME OF HELP FOR THE DISABLED</td>
<td>12</td>
</tr>
<tr>
<td>6.</td>
<td>COUNCIL OF MINISTERS</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>Agriculture</td>
<td></td>
</tr>
</tbody>
</table>
1. The Cabinet resumed their discussion of the draft White Paper on Devolution. They had before them a memorandum by the Prime Minister (C(74) 98).

THE PRIME MINISTER said that the Cabinet would wish to consider three papers which had been circulated with his memorandum. Annex B was a draft White Paper prepared by the Secretaries of State for Scotland and for Wales on the basis of an earlier draft and in the light of the earlier discussions. Annex C was a statement of policy on devolution which had concurrently been prepared by the Home Policy Committee of the Labour Party under the chairmanship of the Secretary of State for Prices and Consumer Protection and which would shortly be published. Annex A was a draft White Paper prepared at his request which attempted to combine the convincing factual background of Annex B with the more positive approach towards the Government's proposals shown in Annex C.

In discussion it was pointed out that Annex C had now been given out to the Press by the Labour Party and there was, therefore, no question of suggesting modifications to it. Its form was not such that it could stand as the Government's expression of views on devolution and in any case it went too far on matters of detail and was expressed in emotive language. The Government was committed to publishing its own White Paper soon and it was therefore now inevitable that the Government's White Paper would be closely compared with the Party document. Although there was some feeling that Annex B was attractive, it was generally agreed that in the circumstances Annex A represented a substantial improvement. In particular, the Government's conclusions and proposals were put forward in a more convincing and positive way, and it was important that reference should be made to England as in paragraph 25 of the draft.

In further discussion the following comments were made:

a. The Government would need to make it clear that the draft at Annex C now published was to be regarded only as a valuable discussion document and that the Government's views would be made clear in their White Paper to be published shortly.

b. The draft at Annex A should avoid mere repetition of passages in Annex C, and in particular should not carry over from it colourful wording which was inappropriate for a Government White Paper eg the references to "the spotlight of democracy" and to "avarice and selfishness".
Paragraph 1 of Annex A was wrong to suggest that civil servants stationed in the regions were not subject to democratic control.

d. Greater emphasis should be placed on the vital need to maintain the political and economic unity of the United Kingdom.

e. The conclusions on Scotland and Wales were presented together, with some confusion as between legislative and executive devolution. There was a case for keeping the treatment of Scotland and Wales separate, as had been the basis of Annex B.

f. It should be made clear that authority granted to an assembly would in practice be exercised by those in control of that assembly.

g. The functions which the Secretaries of State for Scotland and for Wales would exercise after the setting up of Scottish and Welsh assemblies were not very clear; they appeared to be very restricted. It was arguable that there might be some disadvantage in establishing a constitutional doctrine that the two Secretaries of State must necessarily be in the Cabinet.

h. The proposals for Wales broadly represented what the Labour Party in Wales had wanted for some time. Although they fell somewhat short of what was proposed for Scotland, the difference could be faced.

i. It should be made clear that while the assembly would be able to allocate the block grant in accordance with its own priorities, the total size of the grant would have to be arrived at by an assessment of individual programmes, having regard to standards obtaining throughout the United Kingdom.

j. It was important not to exaggerate the benefits expected to come from North Sea and Celtic Sea oil. Good prospects were there, but they should be presented more soberly.

k. It should be made clear that nothing in the White Paper affected decisions on Northern Ireland. In particular, no encouragement should be given to the view that the number of Northern Ireland Members of Parliament should be increased to the Scottish and Welsh levels.
1. There should be no apparent commitment to release the executive control of law and order functions to Scottish and Welsh assemblies. Paragraph 23(d) of Annex A might be interpreted as restricting the Secretaries of State to the functions there listed, and these did not include law and order. On the other hand paragraph 29, which gave examples of the assemblies' functions, did not include law and order.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were concerned at the far-reaching and perhaps destructive nature of the proposals on devolution which were current and were reluctant to commit the Government to detailed and specific proposals before the full implications had been worked out. However, a movement towards devolution had been started by the setting up of the Kilbrandon Commission itself, and the present Government was committed to making proposals in a White Paper. Given that commitment, the Government should not seem to put forward their proposals in a grudging or reluctant spirit. At the same time the proposals should be so framed that, whilst meeting present political requirements, they did not specifically provide for separate executive governments for Scotland and Wales or commit the Government on the scope of the powers and functions to be devolved. The precise nature and timing of the devolution to be introduced could then be considered in the light of more mature consideration. The best basis for further consideration of the White Paper was Annex A. This should however be revised in the light of the Cabinet's discussion by a drafting group of the Chancellor of the Exchequer, the Secretary of State for the Environment, the Secretaries of State for Scotland and for Wales, and the Minister of State, Civil Service Department, under the chairmanship of the Secretary of State for Prices and Consumer Protection. The revised draft should be circulated for consideration by the Cabinet in the following week so that the White Paper might be published as soon as possible thereafter.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Secretary of State for Prices and Consumer Protection, in consultation with the Chancellor of the Exchequer, the Secretary of State for the Environment, the Secretary of State for Scotland, the Secretary of State for Wales and the Minister of State, Civil Service Department, to prepare a revised draft for the Cabinet's consideration.
2. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(74) 95) to which was attached a draft White Paper on the Community Ownership of Development Land, and a note by the Secretary of State for the Environment (C(74) 96), to which was attached the report of a Working Party on purchase price and taxation in the transitional period.

The Secretary of State for the Environment said that at their meeting on 1 August the Cabinet had accepted the broad principles of the scheme, but they had not decided what type of taxation should apply to private transactions in land during the transitional period. This question was remitted to an expert Working Party, who had now reached agreement on the type of tax to be applied. The only important outstanding question was the rate at which the new tax should be levied. On the merits of the case he was in favour of a rate of 80 per cent, but the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster were disturbed by the effects of so high a rate on business confidence. The Chancellor of the Duchy of Lancaster had held a meeting the previous evening which had considered 3 possible ways of mitigating these effects. One possibility was to provide for a rate of tax that would increase to 80 per cent over a period. Alternatively there might be differential rates for individual landowners and for companies. The third possibility was to allow the landowner to increase the base value for the calculation of tax by taking account of his expenses, including interest. The meeting had favoured the third option and proposed to add to the White Paper a statement that for land already held on the date of the White Paper the basis of the tax would be adjusted to take account of the fact that the acquisition of the land might have been financed at high rates of interest. He would accept this change, but the Cabinet would note that the new formula left open some important questions, such as the treatment of interest charges on the cost of land acquired after the date of the White Paper, the question whether the concession would apply indiscriminately or only to landowners who would otherwise incur a loss, and the question of the amount of the adjustment. He must be ready to answer detailed questions on all these points when the White Paper was published, and would have to discuss them immediately with the Treasury and other Departments concerned. If the Cabinet agreed to the White Paper he would propose to publish it on Thursday 12 September, which would mean going to Press the following day.
In discussion it was argued that in the present state of the economy the preservation of business confidence was of paramount importance. The collapse of the real estate market had endangered many firms that had invested heavily in real estate under the previous Government. So far, thanks to the efforts of the Bank of England and with no help from the Government, it had been possible to avoid any spectacular financial crash, but the clearing banks which had already lent £500 million to the fringe banks could not rescue them from the consequences of further bankruptcies, and there was a real danger of a chain of bankruptcies which would spread into industry and could lead to a collapse of confidence in sterling.

The position of the insurance companies, for which the Government had a responsibility, was particularly worrying. However, the proposal agreed at the meeting under the Chancellor of the Duchy of Lancaster should have the effect of increasing the putative value of land in company assets, by giving firms a better idea what price their land might fetch in the market. The formula should be politically acceptable, for nobody could wish to tax transactions on which there had been no profit. In general the supporters of the Government should take comfort from the proposal to bring in the full scheme by a series of Orders, area by area, as the effect would be to bring the transitional provisions to an end as quickly as possible in each area.

In further discussion the following amendments were suggested to the White Paper:

a. Under the transitional arrangements the development land tax would be payable on land held by builders. With Government encouragement, builders had bought land continuously and would now show a profit on land bought when prices were lower than at present but a loss on land bought more recently. Either there should be some arrangement for setting the losses against the profits for the purposes of the tax, or the reference to such land in paragraph 36 should be amended so as to exclude it from the tax as well as from acquisition under the scheme.

b. Under the draft White Paper the development land tax would seem also to apply to a firm building a new factory on land that it already held for the purpose. This would be inconsistent with the intention not to constrain important industrial development and expansion. However, it would be difficult to exempt such cases without opening up loopholes that could be exploited by others, and the legal provision might be complicated.
Nevertheless it would be desirable to include in the White Paper a form of words to deal with the difficulty but it would need to be established urgently that these were likely to be compatible with the legislation as eventually drafted.

c. It was argued that the position of owner-occupiers was not sufficiently protected in the draft. The promise in paragraph 47 appeared weak. If possible, the White Paper should include a categorical statement that existing owner-occupiers would not be affected by the scheme.

d. Since the White Paper did not cover Northern Ireland, it would be anomalous if the new development land tax were to apply throughout the United Kingdom.

THE PRIME MINISTER, summing up the discussion, said that, subject to the points made in discussion, the Cabinet approved the draft White Paper for publication. The Secretary of State for the Environment should consider in consultation with the Chancellor of the Exchequer and the Chancellor of the Duchy of Lancaster how to amend the draft to take account of the points at a. and b. The Cabinet agreed that the draft should include a more definite statement on the position of owner-occupiers. The position of Northern Ireland should be cleared up between the Departments concerned.

The Cabinet -

1. Invited the Secretary of State for the Environment to pursue the points raised in discussion on the lines indicated in the summing up by the Prime Minister.

2. Subject to these points approved the draft White Paper for publication.
3. The Cabinet considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (C(74) 93) about the approach to renegotiation objectives on regional aids.

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that the approach to regional policy in the European Economic Community (EEC) had been based on economic factors which were significantly different from those applying to the United Kingdom, and the Community was now committed to defining new arrangements for the co-ordination of regional aids. This was being pursued in a Commission Working Party. In his statement of renegotiation objectives in the Council of Ministers on 4 June he had said, with the full authority of the Cabinet, that we accepted that the co-ordination of rules under which member States gave regional aids had a useful part to play, and that we would be taking part in the Working Party with the objective of ensuring that the rules took account of the needs of the United Kingdom.

The Ministerial Committee on European Questions (EQ) had considered on 31 July how to further our objectives in the Working Party but had been unable to reach agreement on which of two alternative courses to adopt. The Secretary of State for Industry on the one hand had proposed the approach outlined in Annex A to C(74) 93. This would mean submitting a paper to the Working Party challenging the principle of co-ordination of regional aids and arguing that, since realistic rules would be difficult to define, it would be better to opt for a much looser arrangement based on consultation. We should have to argue that national Governments must be free to exercise regional policies within their territories, including freedom to determine and vary the boundaries within which aids should apply and to change the rate of the aid. We would have to argue that Governments must be free to take quick or exceptional measures without obstruction from the Commission. This line of argument implied a need to amend the Treaty of Rome in order to enable the Governments of member States to have the necessary freedom of action.

The Minister of State for Foreign and Commonwealth Affairs (Mr Hattersley), on the other hand, had argued that we should approach the Working Party on the lines set out in Annex B to C(74) 93. We should acknowledge the need for rules to secure the co-ordination of regional aids and should argue that the Community needed to reconcile conflicting pressures in determining its policies on regional aids. It must recognise that all member States conducted regional policies which effectively distorted competition between regions; but the dangers of such distortion should not be exaggerated and the rules and procedures must enable member Governments to discharge their internal responsibilities...
while avoiding actions which could have unacceptable consequences for other member States. We should argue that systems of regional aid must be appropriate to the situation to which they applied and that the provisions of the Treaty must not be interpreted in a doctrinaire fashion. We should argue that it was essential for member Governments to take quick or exceptional action where necessary, and to vary the boundaries of their assisted regions in the light of changes in circumstances at a time when they judged such assistance to be necessary.

The Foreign and Commonwealth Secretary said that his own view, which had been shared by the majority of EQ, was in favour of the approach proposed by the Minister of State for Foreign and Commonwealth Affairs. This was fully consistent with the Government's Manifesto commitment to retain for the United Kingdom Parliament "those powers over the British economy needed to pursue effective regional policies" and also with the basic philosophy of the Labour Party. The approach proposed by the Secretary of State for Industry would lead to a direct conflict with the Commission and other Community members and would be contrary to the policy of attempting to modify EEC arrangements to suit our needs. The work on regional aids would make no progress and we might well find ourselves at a disadvantage if other member States were free to pursue competitive regional policies. There was no reason to suppose that the Commission was fundamentally hostile to our present regional policy. In recent months they had not resisted significant changes in both the rate of Regional Employment Premium (REP) and in the definition of needy areas.

THE SECRETARY OF STATE FOR INDUSTRY said that the decision on the approach to be followed in the Working Party was central to renegotiation and was of the greatest importance. It should not be taken in a hurry. The question was not whether the Community was or was not likely to take a reasonable line towards our regional policy needs, but whether we could accept that the Commission rather than the United Kingdom Parliament should have the power of decision in the field of regional aids. It was difficult to resolve the philosophical paradox that, whereas the fundamental objectives of the EEC aimed at removing distortions in competition between different parts of the Community, regional policy must aim to cause such distortions. The width of the difference of view between the United Kingdom and the Community was illustrated by the way in which senior members of the Competition Division of the Commission regarded the settlement of regional policy as an important aspect of gradual progress towards their concept of full economic and monetary union. Although they had shown understanding over recent changes in REP and the definition of boundaries, this might reflect no more than a recognition of the sensitive political situation here. There was no reason why
this understanding approach should persist once renegotiation was over. Moreover, in some areas such as steel pricing and shipbuilding policy, it was already clear that effective power had passed over to the Commission. The approach which he advocated did not necessitate amendment of the Treaty of Rome. He accepted the need for some co-ordination of regional aids, but the interest of the United Kingdom, and of other member Governments, must lie in a looser form of control than the Commission wanted to impose. The basic flaw of the approach recommended by the Minister of State for Foreign and Commonwealth Affairs lay in its acceptance, contrary to the specific wording of the Labour Party Manifesto, that the right of decision should lie with the Commission rather than with the United Kingdom Parliament.

In discussion it was argued that the powers of control available to the Commission under Articles 92-94 of the Treaty of Rome were considerable. Moreover, the provisions for the free movement of capital were likely to impose additional constraints on our economic policies. Article 154 of the Treaty of Accession had required that the co-ordination of rules for regional aids should be settled by 1 July 1973, but this deadline had been deferred following criticisms made by Labour Party spokesmen in a Parliamentary debate. When the new deadline of 1 January 1975 had been settled it had been assumed that the agreement would form part of a comprehensive Community regional policy including a regional development fund. In all the circumstances we should not allow ourselves to be pushed too fast in the matter of settling rules for regional aids.

THE PRIME MINISTER said that the Cabinet would be unable to complete discussion of this subject at the present meeting since urgent decisions were required on some other matters. He would arrange for it to be resumed at an early meeting.

The Cabinet -

Took note.
4. The Cabinet resumed their discussion of the European Economic Community’s proposals for cheap beef for people receiving social benefits. They had before them a minute to the Prime Minister by the Minister of Agriculture, Fisheries and Food reporting the outcome of his discussion in the Council of Ministers (Agriculture) on 3 September.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD recalled that the Cabinet had decided at their previous discussion that the Community’s scheme should be introduced in the United Kingdom for all retirement pensioners, without distinction between those who were or were not receiving supplementary pensions; however, the Commission had given the opinion that the scheme was intended only for those receiving social assistance, which would confine it to those in receipt of means-tested benefits. He had raised the matter at the meeting of the Council of Ministers (Agriculture) and subsequently with M. Lardinois, the Commissioner responsible for agriculture, who had promised to consider carefully the suggestion that all retirement pensioners in the United Kingdom should benefit and to propose, at a further meeting to be held on 14 September, a scheme whereby this could be achieved. He expected that the Commission would be prepared to make available assistance up to the sum which had been budgeted on the basis of five million recipients for a seven-month period: on this basis cheap beef could be provided for 3 1/2 million retirement pensioners, starting on 2 December, with a full contribution of 50 per cent from Community funds. Although it would be premature to announce the introduction of this scheme before the meeting on 14 September, he proposed that the arrangements to print the necessary coupons should be authorised now in order that the scheme might start on 2 December.

In discussion it was pointed out that instructions for printing the coupons should be given by the end of the week if the scheme was to start before Christmas and that once the printing order was placed the news would almost certainly leak, with the consequence that the Government would be discredited should the outcome of the meeting on 14 September turn out to be unsatisfactory. There was therefore a case for taking no action until after the 14 September meeting, and accepting that the scheme would then not start until after Christmas. As against this it was argued that a leak of information about the scheme would not matter; if, contrary to expectation, the Commission did not agree to the scheme now envisaged the Government’s refusal to implement a scheme confined to those receiving means-tested benefits would command public support.
THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the Minister of Agriculture, Fisheries and Food's proposal to accept a scheme on the basis expected to be put forward by the Commission, and agreed that although no announcement should be made until after the meeting to be held on 14 September, the arrangements for printing the coupons should be put in hand forthwith: a leak of information was likely but would not be important enough to justify delaying the printing instructions and thus the implementation of the scheme. The Secretary of State for Prices and Consumer Protection had indicated that she would be ready to agree that the money required should be found from funds previously allocated to her Department, but her Department was not in a position to accept policy responsibility for the scheme nor account for the costs: policy and accounting responsibility should therefore rest with the Minister of Agriculture, Fisheries and Food, with the Secretary of State for Social Services carrying out necessary functions on his behalf.

The Cabinet -

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

2. Invited the Minister of Agriculture, Fisheries and Food to be guided accordingly.
5. The Cabinet considered a memorandum by the Secretary of State for Social Services (C(74) 97) on a new scheme of help for the disabled.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that she was required under Section 36 of the Social Security Act 1973 to lay a report before Parliament by 31 October on social security provision for the chronically sick and disabled. She proposed that this report should be published on 12 September. The most important part of it related to her immediate proposals for social security changes; the introduction in 1975-76 of a non-contributory invalidity pension, at a rate of £6 a week free of tax, for congenitally handicapped persons, with a pocket money rate of £2 per week for in-patients in psychiatric hospitals; the introduction in 1976-77 of a non-contributory invalid care allowance also at a rate of £6 per week; and the subsequent introduction of a non-contributory invalidity pension for disabled housewives. The text of the report would differ marginally from that circulated as a result of further discussions with the Chancellor of the Exchequer, but the changes were ones of presentation rather than substance. The possibility of highlighting her actual proposals in a summary had been raised, but since these proposals fell far short of what ideally she would like to do because of the public expenditure constraints it might well be better not to draw attention to them in this way. The report did not deal with the action to be taken on Lady Sharp's report on mobility for the disabled on which the conflicting nature of the political pressures and the public expenditure constraints had made settlement of policy particularly difficult; but she had now reached agreement with the Chancellor of the Exchequer on the main principles to be adopted; and subject to agreement on the final wording she hoped it would be possible to issue a printed statement on this issue at the same time as the report was published.

THE LORD CHANCELLOR, summing up a brief discussion, said that the Cabinet approved the publication on 12 September of the report as amended in the light of the further discussion between the Secretary of State for Social Services and the Chancellor of the Exchequer; but the Secretary of State for Social Services should give further thought to the possibility of highlighting her immediate proposals in presenting the document. The Cabinet also agreed that a statement should be made simultaneously on the Government's decision on Lady Sharp's report on mobility for the disabled subject to the Secretary of State for Social Services' being able to reach agreement with the Chancellor of the Exchequer on the wording of the text.
The Cabinet -

Took note with approval of the Lord Chancellor's summing up of their discussion and invited the Secretary of State for Social Services to proceed accordingly.

6. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD informed the Cabinet that the meeting of the Council of Ministers (Agriculture) on 3 September had considered measures to deal with problems arising in agriculture due to high costs and inadequate producer returns, but had reached no decisions. The Council had agreed on the seriousness of the situation and had decided to meet again on 17, 18 and 19 September with a view to reaching decisions to apply from 1 October. He had made clear to the Council the specific problems for the United Kingdom, and he had argued that the situation demonstrated the need for greater flexibility in the application of the Common Agricultural Policy (CAP). There appeared to be a growing recognition elsewhere in the Community that the CAP in its present form was not working satisfactorily.

He had informed the Council of the serious sugar supply situation in the United Kingdom and of his intention to conduct immediate discussions with Guyana and with Australia so as to ensure adequate supplies for the remainder of this year. The Community itself was unable to make good our deficit and the Council had not objected to his proposals. He would shortly be circulating to the Ministerial Committee on European Questions detailed proposals on the line to be taken at the Council Meeting on 17, 18 and 19 September.

The Cabinet -

Took note of the statement by the Minister of Agriculture, Fisheries and Food.

Cabinet Office

5 September 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
TUESDAY 10 SEPTEMBER 1974 at 11.00 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury
SECRETARY

Sir John Hunt
Mr P D Nairne
Mr R J O'Neill

SUBJECT

EEC RENEGOTIATION

Regional Aids
The Cabinet resumed their discussion of a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (C(74) 93) about the approach to renegotiation objectives on regional aids within the European Economic Community (EEC).

In discussion it was argued that the approach proposed by the Minister of State for Foreign and Commonwealth Affairs (Mr Hattersley) would imply, however generous the rules might be which we succeeded in negotiating, our acceptance that in the last resort the authority of the EEC Commission must prevail over that of the United Kingdom Parliament. The Election Manifesto had committed the Government to the retention of the necessary powers by Parliament. If any Press reports of discussion in Brussels were to suggest that this objective had been abandoned, this would be widely interpreted as a retreat from agreed political objectives. In view of the constant risk of Press leaks there would be advantage in the present political circumstances in deferring any action which would require officials to argue the United Kingdom case in Brussels. If this were accepted, no immediate decision was necessary on what our policy approach should be.

On the other hand, it was explained that since the meeting of the Working Party was to be held at the level of officials only the risk of leaks to the Press should be small. The paper at Annex B to C(74) 93 was not for circulation to the Working Party, but was a brief as a basis for the oral deployment of the United Kingdom case. As long ago as 4 June, the Foreign and Commonwealth Secretary had said in his statement to the EEC Council of Ministers that the United Kingdom would be making a full contribution to the work of the Working Party. Even in present political circumstances we could not reasonably ask for discussion in the Working Party to be further deferred; and it would be to our disadvantage if the work went ahead without us. The course which the Minister of State for Foreign and Commonwealth Affairs proposed was entirely compatible with the Manifesto, and it should not create any political difficulty if it should become known publicly.

In further discussion it was suggested that it would be wrong to assume that any EEC rules, once made, would be interpreted flexibly by the Commission or would be likely to give us the freedom we would require. Unacceptable rules governing state aids already existed within the EEC; and, once any system of rules had been agreed, it could be changed only by unanimous agreement or through obtaining a favourable interpretation from the Commission and the European Court of Justice. All questions affecting aids to industry had now to be referred in advance to the EEC Commission in accordance with the EEC Treaty. To place ourselves further in the hands of the Commission bureaucracy would not be compatible
with the Government's position on the preservation of the powers of Parliament with regard to the EEC. The course favoured by the Secretary of State for Industry did not necessarily involve any Treaty amendment, nor the avoidance of any co-ordination: it would mean trusting Governments to behave reasonably rather than placing faith in reasonable behaviour by the Commission. We ought to seek to persuade the other member Governments of the merits of this policy approach, at least as an opening position.

On the other hand, it was pointed out that it was in the interests of the United Kingdom that there should be rules governing action by other Governments to attract investment within the EEC. Rules necessitated a role for the Commission under the EEC Treaty. Provided we could obtain agreement to rules which were compatible with the various requirements set out in both the Secretary of State for Industry's paper and that by the Minister of State for Foreign and Commonwealth Affairs, for example that member Governments should be free to introduce labour subsidies and to take quick or exceptional action as necessary, we need have no fear that in practice our freedom to follow the policies we wished would be constrained. Satisfaction on such points should be a sticking point in the present discussions: and the progress made would be taken into account in the eventual decision whether to recommend the outcome of renegotiation. Annex B to C(74) 93 should be strengthened to make this clearer. The statement by the Foreign and Commonwealth Secretary on 4 June that the United Kingdom recognised the value of rules within the Community governing levels of regional aids had been made in consultation with the other Ministers concerned. We ought now to follow up that statement as soon as possible by explaining the changes we required in the rules. If we could not in the event obtain what we wanted, it would still be open to us to consider alternative approaches, including if necessary Treaty amendment.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that we must be free to follow the regional policies we required. The majority felt however that this was compatible with having rules on state aids and that indeed the establishment of the right rules would be in our own interests. They therefore favoured the tactical course recommended by the Minister of State for Foreign and Commonwealth Affairs. The brief for the United Kingdom representative in the EEC Working Party on the co-ordination of regional aids should however be strengthened by including appropriate extracts from the Foreign and Commonwealth Secretary's statement of 1 April, and by quoting more fully from his statement of 4 June. The instructions should also be amended to make it plain that it was of fundamental importance in renegotiation that the new EEC rules governing the co-ordination of regional aids should satisfy the requirements set out in paragraph 5 to Annex B of C(74) 93.
This action would ensure that the line to be taken by the United Kingdom representative in the Working Party would be fully defensible in the event of any Press leaks that might occur.

The Cabinet -

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

2. Invited the Foreign and Commonwealth Secretary to revise accordingly, and circulate to the Cabinet, the brief to the United Kingdom representative to the Working Party.

Cabinet Office

10 September 1974
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 12 SEPTEMBER 1974
at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council
(Items 1-5)

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs (Items 1-4)

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department (Items 1-5)

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment (Items 1-3)

The Rt Hon Eric Varley MP
Secretary of State for Energy (Items 1-4)

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales
The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

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

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Judith Hart MP
Minister of Overseas Development
(Item 3)

Mr Joel Barnett MP
Chief Secretary, Treasury
(Item 3)

Mr Robert Sheldon MP
Minister of State, Civil Service Department
(Item 2)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 1)
Mr P Benner (Item 2)
Mr J Anson (Items 3-6)
Mr J Roberts (Item 1)
Mr K R Stowe (Item 2)
Mr D Evans (Item 1)
Mr R L Baxter (Items 3-6)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>FOREIGN AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cyprus</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Sugar</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>EEC Council of Ministers Agriculture Meeting on 17-19 September 1974</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Greece and the EEC</td>
<td>5</td>
</tr>
<tr>
<td>2</td>
<td>DEVOLUTION</td>
<td>6</td>
</tr>
<tr>
<td>3</td>
<td>PUBLIC EXPENDITURE</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>SUNDAY TIMES ARTICLE</td>
<td>13</td>
</tr>
<tr>
<td>5</td>
<td>NUCLEAR TESTS</td>
<td>13</td>
</tr>
<tr>
<td>6</td>
<td>PROPOSED INCREASE IN DENTAL CHARGES</td>
<td>14</td>
</tr>
</tbody>
</table>
1. THE FOREIGN AND COMMONWEALTH SECRETARY said that there was continuing diplomatic activity between the parties concerned with the Cyprus dispute but no early prospect of a further conference of the kind which had been held in Geneva. The best hope of progress lay in the talks between the acting President of Cyprus, Mr Clerides, and the Vice President, Mr Denktash. These were initially concerned with humanitarian problems and might provide a means of resolving the problem created by the proposal of Mr Denktash that Turkish Cypriot refugees should be evacuated from the Western Sovereign Base Area with a view to settlement in the Turkish controlled zone of the island. The hope was that these talks would later provide a forum for discussion of constitutional issues. The position would however be worsened if the Turks were to carry out their reported intention of declaring an independent Turkish Cypriot Republic, and the attitude of Archbishop Makarios seemed to be hardening against a federal solution based on two regions. He recognised the feeling of some of his colleagues that the Turkish action in Cyprus should not go uncondemned by the United Nations. But, at this stage, a resolution in that sense might well not command general support in the United Nations and would not contribute towards achieving a solution to the Cyprus problem. It might also prejudice the prospects of satisfactory arrangements for refugees.

The Cabinet -

1. Took note of the statement by the Foreign and Commonwealth Secretary.

THE FOREIGN AND COMMONWEALTH SECRETARY informed the Cabinet that the Ministerial Committee on European Community Questions (EQ) had considered the position on sugar supplies in the light of the Minister of Agriculture's negotiations in Guyana and preliminary discussions with the Australian Government. The Minister had secured the agreement of the Guyana Government to deliver 85,000 tons of their 1974 quota under the Commonwealth Sugar Agreement (CSA) at a price of £140 per ton f. o. b. Although this represented a substantial increase over the current CSA price, the deal was the most favourable we could expect to achieve in the circumstances and EQ considered that we should confirm it immediately with the Guyana Government. The Committee had also concluded that the Minister should be authorised to conduct negotiations with Australia towards a five year agreement under which she would supply annually 335,000 tons to our market at a similar price; in return for such an agreement starting in 1975 Australia would send us immediately 200,000 tons of sugar which would help to make good our 1974 shortfall.
These arrangements would secure the sugar supply situation for the near future but further interdepartmental consideration should be given to the long-term implications both for the implementation of the assurance to the developing Commonwealth of guaranteed access for 1.4 million tons under the Protocol 22 arrangements and for our policy on United Kingdom beet production. It would also be necessary to consider whether the consequential consumer price increase should be offset by an increased subsidy. There were potential objections, and this question could not be settled immediately.

THE PRIME MINISTER, summing up a brief discussion, said the Cabinet agreed that the Guyana Government should be notified immediately of our acceptance of the arrangements negotiated by the Minister of Agriculture, and authorised the Minister to pursue discussions with the Australian Government on the basis described by the Foreign and Commonwealth Secretary. The Minister of Agriculture and the Secretary of State for Prices and Consumer Protection, together with the other Ministers concerned, should consider the consequential increase in the consumer price in relation to the Government's policy on food subsidies; and the outcome, along with proposals for the substance and timing of an announcement, should be reported to him.

The Cabinet -

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

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Ministerial Committee on European Community Questions (EQ) had discussed proposals by the Minister of Agriculture for the line which he should take at the meeting of the Council of Ministers (Agriculture) on 17-19 September when decisions would be taken on measures to deal with the serious situation in agriculture throughout the Community. The Commission had proposed a package of measures including a general 4 per cent price increase, an adjustment of monetary mechanisms under the Common Agricultural Policy (CAP) and proposals on national aids for agriculture. EQ agreed that we could accept the proposed price increase, though there was some doubt as to whether in the event it would prove adequate to meet the serious difficulties which our farmers now faced. The Committee had also agreed that we must pursue the wider use of national aids under the CAP to meet the varying needs of farmers in different countries, and that for the United Kingdom it was essential to make an early announcement
about measures aimed at a substantial increase in the profitability of milk production. The Committee had concluded that further urgent thought should be given to the possibility of a "winter keep" scheme in view of the high cost of feeding stuffs, and of the longer term problems for beef and milk supplies which would arise if the current rate of slaughter of calves was not checked.

As to the proposals for changes in the monetary mechanisms, one element - the removal of the "abatement rule" which limited our eligibility to monetary compensatory amounts (mca's) in certain areas - would be advantageous in keeping down feed prices. But a change in the "reference rate" for sterling would increase prices and import costs. The majority of the Committee considered that the Minister should be authorised to agree to changes which amounted to a reduction limited to 7.5 percentage points in our monetary compensatory amounts. Some members were anxious to consider this area further.

More generally it had been agreed that the agricultural situation clearly demonstrated yet again the failure of the CAP to meet the needs of Community agriculture; this was useful ammunition in support of our renegotiation objectives, and the Minister would be pressing hard for acceptance of the principle of national aids and that they should be more widely used to supplement common end prices as a means of agricultural support. CAP reform was a matter on which the Prime Minister might wish to touch when he dined with other Community Heads of Government on 14 September. The Committee had invited the Minister of Agriculture and the Secretary of State for Prices together with the other Ministers concerned to consider the timing and terms of any announcement about the implications of the proposed increase in the profitability of milk for consumer prices and for the existing consumer subsidy.

In discussion it was argued that the package of measures proposed by the Commission touched on a central area of our European Economic Community (EEC) renegotiation policy. The changes proposed in the monetary arrangements and the question of national aids would be of vital importance to this country. The difficulties faced by farmers in the Community and the evident inadequacies of the CAP presented us with an opportunity to insist on new and fundamentally different arrangements. The Commission's current proposals did not include any specific measures relating to national aids, though these were a most important part of our renegotiation proposals. Whatever the pressures, therefore, we should be prepared to withhold our agreement to a package of measures at the Council Meeting on 17-19 September unless we could secure our own objectives, including far-reaching changes in principle designed specifically to meet the needs of this country.
On the other hand it was argued that the gravity of the problems facing milk and beef producers required an early announcement of action by the Government. The Agricultural Council discussions should be handled in a way that would reconcile the need for urgent decisions on agricultural support with the equally important need for standing firm if necessary on the proposed monetary changes and the principle of national aids.

It would be necessary to consider whether the full cost of the changes in the milk arrangements should be passed on to the consumer, or whether the Exchequer should bear some part. The most satisfactory arrangement would be an increase of 2½p per pint in the retail price, leaving the remainder of the cost to be borne by the Exchequer. This would still leave the retail price of milk below the level of when the Government had assumed office. It was also argued that there were signs that the special premia for beef production recently introduced here and the pig subsidy were being creamed off by the meat trade and were not reaching the producer. Consideration should be given to announcing a full enquiry into the meat trade and the possibility of control over margins.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet was agreed on the need for early action to improve support for the farming industry. The Minister of Agriculture's proposal for an increase of 8p per gallon in the profitability of milk production was endorsed by the Cabinet. The Cabinet also approved the Minister's proposal to accept a 4 per cent general increase in CAP prices and to press for specific recognition by the Community of the part which national aids should play in farm support under the CAP. The Minister of Agriculture would be meeting the Irish Minister and the Commissioner responsible for agriculture in Brussels on 14 September and would be discussing the question of changes in the monetary arrangements. In doing so he would wish to bear in mind the difficult situation which would arise in Northern Ireland if the Irish Republic were to make unilaterally the full 15.3 per cent change in its reference rate and he would explore the possibility of a compromise agreement based on an effective reduction of not more than 7.5 percentage points in our mca's. The Minister should report back to his colleagues in the light of these discussions in order finally to settle the line to be taken on monetary arrangements at the Council Meeting. The Minister of Agriculture and the Secretary of State for Prices, in consultation with the other Ministers concerned, would consider the content and timing of any announcement on the implications of the additional support for milk producers for consumer prices and subsidies and would report to him.
The Cabinet -

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

4. Invited the Minister of Agriculture to be guided accordingly in the EEC negotiations he would be conducting.

THE FOREIGN AND COMMONWEALTH SECRETARY informed the Cabinet that the Greek Government intended to raise with the EEC the question of the reactivation of the Association Agreement between Greece and the Community. In view of the need to encourage the move towards more democratic Government in Greece he did not intend to stand in the way of the preparation of a revised Association Agreement.

The Cabinet -

5. Took note.
The Cabinet had before them a memorandum by the Secretary of State for Prices and Consumer Protection (C(74) 105), to which was appended a revised draft White Paper on Devolution.

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION said that following the Cabinet's discussion on 5 September a group of Ministers under her chairmanship had prepared a revised draft of the White Paper on Devolution which, while clearly differentiated in language from the document which the Labour Party had recently issued, retained its structure and positive approach. There were two points to which it was necessary to draw attention. First, the Cabinet had concluded at their earlier meeting that the White Paper should not specifically provide for separate executive governments for Scotland and Wales or commit the Government over the scope of the powers and functions to be devolved. The Ministerial Group had concluded that it was politically inevitable that the White Paper should specifically convey that the assemblies would be given some (though unspecified) executive powers of the kind now exercised by the Secretaries of State for Scotland and Wales and by certain nominated statutory bodies. The Cabinet would wish to consider whether the terms of paragraphs 27 and 28(b) of the draft which had been circulated were acceptable. Secondly, it had been suggested to the Ministerial Group that a reference to uniformity of charges as well as of standards of services should be included in paragraph 28(c). This, however, was not reflected in the revised draft because of the differences which already existed between Scotland and England in relation, for example, to rents. Subject to comments on these points she invited the Cabinet to agree the revised draft and to authorise its immediate publication.

In discussion of the way in which executive powers for the assemblies should be treated it was argued on the one hand that there would clearly have to be some form of executive in Scotland and Wales which would be responsible to the assembly, and that there would therefore be advantage in making this clear in the White Paper. It was, however, also pointed out that no decision had yet been taken as to the form of such executives and that it could be open to a number of interpretations. The balance of advantage at this stage therefore lay in limiting the Government's future freedom of manoeuvre to the least possible extent, and it would therefore be preferable not to include any commitment on executives in the White Paper. In dealing with any subsequent questions which might be raised, it should be indicated that this was a matter on which the Government was not ready to give its detailed view.
On the second point raised by the Secretary of State for Prices and Consumer Protection there was general agreement that some reference to payments was necessary but that the point could be met by referring to contributions instead of charges.

In further discussion, it was argued that in any comments about devolution following the publication of the White Paper it would be important not to go beyond the terms of the White Paper by implying that the Government were committed to a substantial devolution of powers in the trade and industry field. The danger had to be borne in mind that the substantial devolution of such powers to Scotland and Wales, combined with the limitation of the United Kingdom Government's freedom of action implied by our membership of the European Community, might unacceptably erode the Government's ability to develop and operate industrial policies on a United Kingdom basis.

A number of detailed amendments to the draft were also proposed and agreed.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the revised draft White Paper, subject to the amendments which had been agreed in discussion. It should be published in London, Edinburgh and Cardiff on 17 September and should appear in his name. Everything possible must be done to prevent any leakage prior to publication. It would be for the Lord President, in consultation with the Secretaries of State for the Environment, Scotland and Wales, the Parliamentary Secretary, Civil Service Department and the Press Adviser at Number 10 to ensure that the associated publicity arrangements in all three capitals were fully co-ordinated, particularly in relation to the preparation of briefing to deal with supplementary questions. The White Paper, which in some matters of detail was more cautious than the document recently issued by the Labour Party, represented a carefully considered statement of policy by the Government, and it was essential that in public speeches or comments on the question of devolution Ministers should not go beyond its terms. The Cabinet had in particular decided that there should at this stage be no commitment to set up executive governments in Scotland and Wales; and they had similarly not attempted to settle the extent and nature of the powers which would be devolved on the assemblies. These were matters for later consideration, and the outcome must not be anticipated. Similar caution was necessary in relation to trade and industry functions, where difficult decisions would later be needed involving the determination of a satisfactory balance between retaining adequate powers for economic management on a United Kingdom basis and recognising the legitimate aspirations
of Scotland and Wales. The position of Northern Ireland was also very sensitive, all the more so because the future constitutional arrangements for the Province still had to be settled. It was therefore important that in any discussion of devolution to Scotland and Wales parallels should not be drawn with Northern Ireland.

The Cabinet -

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

2. Approved the draft White Paper annexed to C(74) 105, subject to the amendments agreed in discussion.

3. Invited the Lord President of the Council, in consultation with the other Ministers concerned, to arrange for its publication on 17 September and for the co-ordination of the associated publicity on the lines indicated in the Prime Minister's summing up.
3. The Cabinet considered memoranda by the Chancellor of the Exchequer (C(74) 100 and 101), by the Central Policy Review Staff (CPRS) (C(74) 102), by the Secretary of State for Education and Science (C(74) 106) and by the Secretary of State for Social Services (C(74) 107), on public expenditure from 1974-75 to 1978-79.

THE CHANCELLOR OF THE EXCHEQUER said that in July the Cabinet had agreed as a guideline that total public expenditure should grow on average over the period to 1978-79 at 2½ per cent a year in demand terms. This limitation was necessary in order to leave sufficient room for implementation of the Trades Union Congress (TUC) guidelines on pay, but it also required that those guidelines should be observed. Ministers had now looked at their programmes in the light of this decision and put forward some additional claims; and bilateral discussions had taken place. If all the additional claims were accepted, expenditure would rise by about 3½ per cent in demand terms, absorbing more than the present contingency reserve. This would imply reductions in real earnings, and would make it impossible for the TUC to secure observance of their guidelines. If his proposals in C(74) 100 were accepted, the annual rate of increase would be just over 3 per cent, and further expenditure reductions would therefore still be required. The most difficult year would probably be 1975-76, when there would be strong pressure both for an increase in family allowance, and for two upratings of social security benefits. There would also be a major problem on rate support grant, where for counter-inflationary reasons the Government would want to be fairly generous, but could only do so if local authorities were strict in restraining their spending. There was also an urgent question to be settled on dental charges. At this stage, however, the main question to be settled was one of procedure. He had agreed to disregard, for the purpose of the present exercise, expenditure on the acquisition of assets, since this did not have a large demand effect, although it would involve financial problems which would be relevant to decisions on timing. He had also agreed a package of over £100 million of construction projects to deal with the present unusually low level of demand for this industry's output; this had already been announced and would go some way to meeting the various claims for additional expenditure. As regards the remaining claims, he suggested that on the smaller items, listed in Part I of Table 3, he should seek bilateral settlements with the Ministers concerned. On the major programmes, it was not necessary to settle all the details now, since a public expenditure White Paper did not need to be published until December; but it was therefore important that the Government should not commit themselves in an election manifesto to the amounts or timing of new proposals before decisions on priorities had been taken. In the case of defence, the review was still continuing, although it was
already clear that there would be some increase in the 1975-76 provision over the 1974-75 level. In the case of education, health and social security, some progress had been made in bilateral discussion, but full agreement had not been reached. His own proposals on these programmes were set out in Part II of Table 3. He invited the Cabinet to consider whether these were broadly acceptable or to indicate alternative priorities so that further work could proceed.

In discussion, it was noted that when the Cabinet had discussed the matter in July, it had been agreed that there should be studies of possible ways of restricting less-essential private construction expenditure; on means of avoiding emergency "winter works" programmes; on greater austerity of standards of building and equipment, including the possibility of low cost housing; and on possible ways of increasing the underlying growth of production. On the first two aspects the Chancellor of the Exchequer had circulated a paper (C(74) 99) which was not on their present agenda. On less-essential construction expenditure, however, it seemed outrageous that school projects should be deferred when, for example, speculative office building was still continuing. At the present time, when the constraints on public expenditure programmes were due to financial stringency rather than pressure on the construction industry, a system of building licensing would not necessarily enable the public expenditure programmes to be increased. However, assuming that the position of the construction industry would change during the course of the period of the expenditure survey, it would still be desirable to have some means of ensuring that the resources of the industry were used on projects of social value rather than speculative building. The need might also arise for an emergency programme of housing construction, and officials should study the problems which would be involved in organising such a programme. Further thought would also need to be given to more general questions of resource planning, including manpower planning. So far as the austerity of standards was concerned the CPRS had put forward suggestions in C(74) 102, which should be pursued further. The Secretaries of State for Employment and Industry had not yet completed their paper on the possibility of improvements in productivity, but the experience of the 3-day week seemed to indicate that a significant improvement should be obtainable in the longer term. This would not however be achieved simply by a Government fiat, and it did not provide a way of avoiding difficult decisions in the next year or so.

In further discussion, concern was expressed at the suggestion that the claims listed in Part I of Table 3 should be remitted for bilateral settlement before priorities had been established among expenditure programmes generally. This might pre-empt
£43 million in 1975-76 which the Cabinet might have preferred to devote to other programmes. In particular, discussions still needed to take place on the provision for overseas aid, and this should be seen in the context of its priority against the main expenditure programmes, rather than competing for funds with the miscellaneous items listed in Part I. At the conclusion of the last Cabinet discussion, it had been assumed that the Cabinet would be given an opportunity to weigh up the priority of all the main programmes on the basis of a comprehensive survey by the Chancellor of the Exchequer and papers from all those Ministers who wished to put forward additional claims. In C(74)100 the Chancellor of the Exchequer had given his views on the priorities to be attached to some of the additional claims, but although some bilateral discussions had taken place, not all Ministers had yet discussed their programmes with Treasury Ministers; and the review of defence expenditure, which was of critical importance in the context of priorities, had not yet been completed. The choice of a procedure for determining priorities had always proved difficult. Various alternative techniques had been tried in the past, but in the end it had been found best to discuss the matter in the full Cabinet. This would now have to be deferred to a later meeting and could best take place on the basis of a comprehensive set of proposals from the Chancellor of the Exchequer, with papers as necessary from other Ministers, after a full series of bilateral discussions between Treasury Ministers and the other Ministers concerned. The Secretary of State for Scotland should also be included in these discussions when services with a separate Scottish programme were being examined. If the matter was handled in this way, it would however be important for the Government not to undertake, in an election manifesto, commitments which would restrict their room for manoeuvre in their subsequent consideration of expenditure priorities.

In subsequent discussion, the Cabinet were informed that, in order to leave more room for proposals of higher priority such as an increase in family allowances and a March uprating of social security benefits, it was not proposed to give a Christmas bonus to retirement pensioners and the disabled, which would have cost about £80 million. It was however essential to decide the line to be taken on this point in public. It was argued that it would be difficult to find funds both for a Christmas bonus and for the 6-monthly upratings to which the Opposition were now committed. A bonus was necessarily tax-free and was not therefore an effective way of helping the worse off. There was evidence that the public were now recognising that the severity of the economic situation required a responsible approach to expenditure commitments. On the other hand, it was undesirable to commit the Government to 6-monthly upratings as a matter of continuing policy. Retirement
pensioners probably attached more importance to a Christmas bonus than to more frequent upratings, and members of the Government had already become heavily committed to a Christmas bonus during the last election, although no firm commitment had been given in Parliament. On balance, it seemed better therefore to concede a Christmas bonus this year. While this did not rule out a March uprating, the decision on that would need to be taken in the light of the fact that £80 million would have been committed to the Christmas bonus.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet maintained their broad decision on the acceptable rate of growth of public expenditure as a whole and Ministers should bear this in mind in any election speeches. The Cabinet would need to return to the question of public expenditure as soon as possible after the election when they would wish to take a comprehensive look at the priorities to be observed within that total. In the meantime they did not wish resources to be pre-empted by settlement of the minor claims listed in Part I of Table 3. The Chancellor of the Exchequer should therefore now hold bilateral discussions with the Ministers responsible for all major programmes, and should then circulate a further paper giving his own views on the priorities of all the major items, including defence and overseas aid, so that the Cabinet could discuss priorities across the board. With regard to the question of a Christmas bonus, the Cabinet agreed that in view of previous commitments a bonus should again be paid this year. During the interim period officials should make any possible further progress on the points raised in C(74) 99 and C(74) 102 to which the Cabinet would also wish to return in due course.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister.
4. THE PRIME MINISTER said that members of the Cabinet had that morning received a letter from a Sunday Times reporter saying that he was preparing a corporate profile of the present Cabinet's lifestyle for publication on 15th September and asking both whether their children attended private fee paying schools and also whether they possessed a second home unrelated to their Ministerial, Parliamentary or constituency duties. It was clearly desirable that members of the Cabinet should act consistently either in providing this information or in declining to do so. This intrusion into their private lives had to be measured against the risk of inaccurate reporting, but on balance he felt that individual members of the Cabinet should decline to provide the information sought by the Sunday Times.

The Cabinet -

Took note, with approval, of the statement by the Prime Minister.

5. The Cabinet were further informed about this matter on the basis of a note by the Prime Minister (C(74) 85) which was circulated at their meeting and subsequently withdrawn. The matter is recorded separately.
6. THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Cabinet needed to take an urgent decision on a proposed increase in fees for dental treatment under the general dental services of the National Health Service (NHS). This was a consequential of the increases in the target average net income of dentists recommended by the Halsbury Review Body which had resulted in a new scale of fees for dentists due to come into operation on 1 October. The proposed new scale of fees was known to the profession's representatives, since it had been drawn up by a group of which they were members. These fees were the only way in which NHS dentists were paid. They collected the appropriate charge (part of the fee shown in the scale) for a course of treatment from the patient and the Dental Estimates Board then arranged for the balance to be paid to the dentist. Any alteration in this system or in the proportion of fees charged to the patient would be so unexpected that it would inevitably attract much attention. The additional cost to the patient would arise from the average increase of about 23 per cent in the fees, which reflected the rising cost of dental practice: the basis of charge - 50 per cent of the fee - would not be changed; nor would the £10 ceiling on charges to patients be increased. There were a number of conflicting considerations. The dentists could clearly not be denied the proper fees for their work; but an increase in charges to patients would be particularly inopportune at the present time. The Government had opposed the existing cost related charge procedure when in Opposition, but it would be impracticable to change this before the new fee scale was introduced. Furthermore while the Labour Party was committed to removing all charges under the National Health Service in due course, it would clearly be impossible, in the light of other pressing needs, to make significant progress in this direction within the next few years. A number of solutions had been examined. The first was to freeze the charges to patients at their present monetary level: but this would require new regulations and increased expenditure of £6 million a year. A less costly proposal would be to make the increases in charges proposed and raise the ceiling on charges to patients to £13.50 but to exempt patients above pensionable age. A third course would be to keep the ceiling at £10 and reduce the proportion of fees charged to patients from 50 to 40 per cent. Either of these courses would require new regulations and would cost about £3 million a year. It would not be possible for her to find additional money to meet either of these solutions within her existing Public Expenditure Survey Committee allocation.

THE PRIME MINISTER, summing up a brief discussion in which the various alternative courses were examined, said that conflicting considerations arose and that it was not possible to reach a long-term decision without further deliberation. An increase in charges
would however have undesirable consequences at the present time and there should therefore be a total freeze on any increase in charges at the present time. This could be justified as an interim solution, pending later consideration of the system and levels of dental charges to patients, on the basis that the Labour Party had always opposed the 50 per cent charge to patients which had been introduced by their predecessors, and that they were committed to the eventual abolition of all charges for NHS treatment when economic circumstances permitted, although this would clearly not be practicable for some time to come.

The Cabinet -

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

Cabinet Office

12 September 1974
THE PRIME MINISTER said that at their meeting on 27 June he had
undertaken to consider, in consultation with the senior Ministers most
immediately concerned, the procedures for authorising British
nuclear tests, with particular regard to the security aspects, and to
consider whether it would be reasonable to depart from precedent so
that plans to hold any future tests could be discussed in Cabinet. He
had done this and had prepared a note for the information of the Cabinet.
It contained information of exceptional secrecy however and he had
decided that it would not be right to circulate it to their offices. He
had hoped to show it to them at the Cabinet on 1 August but the length
of their discussion at that meeting had made it impossible. He would
like the Cabinet to read it now.

Copies of C(74) 85 were then handed round and read, without comment,
by all members of the Cabinet except the Secretary of State for Foreign
and Commonwealth Affairs, the Secretary of State for the Environment,
the Secretary of State for Energy and the Lord Privy Seal who were
absent for this item. The copies were then withdrawn.

Cabinet Office
12 September 1974
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
WEDNESDAY 18 SEPTEMBER 1974
at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury
SECRETARY
Sir John Hunt

SUBJECT
Dissolution of Parliament
THE PRIME MINISTER informed the Cabinet that The Queen had agreed to his request that Parliament should be dissolved; and this would be announced at 12.45 pm that day. It was unnecessary to recall Parliament for prorogation, and Parliament would be dissolved at a meeting of the Privy Council on 20 September. Polling in the General Election would take place on 10 October: the first meeting of the new Parliament would be on 22 October: and the State Opening of Parliament would be on 29 October.

The Prime Minister said that during the election campaign the Government retained its responsibility to govern and Ministers remained in charge of their Departments. Furthermore, the principle of collective responsibility continued to apply, although it would be natural to expect Ministers to range wider than was normally customary in their speeches. But while it was essential for the Government to continue to function throughout the campaign, it was customary for Ministers to observe reasonable discretion as regards the initiation of any new action of a continuing or long term character and also in the making of new appointments eg to statutory boards for which they were answerable. In discharging Government engagements Ministers should seek to avoid creating any impression that they were using such occasions for Party political purposes: and before undertaking to fulfil any international commitments they should consider carefully whether the subject matter was such that they could speak with the authority proper to a representative of Her Majesty's Government. But clearly international discussions had to continue and Ministerial attendance at some meetings might be necessary.

As soon as the dissolution had been announced, memoranda would be circulated to the Cabinet advising them of certain arrangements which, by long convention, were made during the period of an Election. An Election Business Committee was being established under the chairmanship of the Lord Chancellor, with the Secretaries of State for Prices and Consumer Protection, Trade and Education and Science and the Lord Privy Seal as members, which would provide the framework for the clearance of statements of policy by the Government, would co-ordinate as appropriate comments from Departments on the guidance prepared for the use of Government Party candidates in dealing with enquiries put to them during the election campaign, and would consider replies by Departments to similar enquiries from Opposition Party candidates, organisations and members of the public. Guidance on the operation of this Committee, which was in practice unlikely to have to meet frequently, was being circulated separately. Guidance was also being circulated to Ministers on the use of official transport during the campaign and on the arrangements for broadcasting, Press articles and interviews by Ministers.
He hoped that his colleagues would study this guidance with care and would also bear in mind the importance of carefully checking both their facts and the policy line in their campaign speeches. The recent White Papers and the Manifesto would often provide sufficient guidance but in any case of doubt the point should be checked through the medium of the Election Business Committee or direct with the Departmental Ministers concerned. His own Office would be functioning at 10 Downing Street throughout the campaign. It was essential for the Government to maintain a united front, to avoid making promises which had not been collectively approved and also to avoid leakage of confidential information. No meetings of the Cabinet were at present planned during the election campaign but if urgent issues of Government business arose, which required collective consideration, he hoped that Ministers would leave it to him to decide whether a special meeting of the Cabinet should be held or whether improvised arrangements for collective consideration should be made.

The Cabinet -

Took note, with approval, of the statement by the Prime Minister.

Cabinet Office
18 September 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
TUESDAY 15 OCTOBER 1974 at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP Prime Minister

The Rt Hon Edward Short MP Lord President of the Council

The Rt Hon Lord Elwyn-Jones Lord Chancellor

The Rt Hon Denis Healey MP Chancellor of the Exchequer

The Rt Hon Michael Foot MP Secretary of State for Employment

The Rt Hon Shirley Williams MP Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP Secretary of State for Industry

The Rt Hon Reginald Prentice MP Secretary of State for Education and Science

The Rt Hon John Morris QC MP Secretary of State for Wales

The Rt Hon James Callaghan MP Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP Secretary of State for the Environment

The Rt Hon Eric Varley MP Secretary of State for Energy

The Rt Hon Barbara Castle MP Secretary of State for Social Services

The Rt Hon Roy Mason MP Secretary of State for Defence

The Rt Hon William Ross MP Secretary of State for Scotland

The Rt Hon Merlyn Rees MP Secretary of State for Northern Ireland
SECRET

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

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

SECRETARY

Sir John Hunt

SUBJECT

THE POLITICAL SITUATION
The Cabinet considered the political situation. Their discussion and the conclusions reached are recorded separately.

Cabinet Office
15 October 1974
THE PRIME MINISTER said that the purpose of the meeting was to give the Cabinet the opportunity for an early stocktaking of the political and Parliamentary situation following the Election without having any papers before it. The Government had an adequate majority over the Conservative Party, and it seemed unlikely that all the other Parties would ever combine to vote with the Conservatives on an issue of major importance. Thus the Government's position was stronger than its overall majority might suggest. The presentation of its policies should clearly be such as to achieve the maximum consensus in the country, but there seemed no need to adjust their programme on account of the Parliamentary situation. The Government should therefore proceed to implement its Manifesto in full. He was grateful for the support of his colleagues in the Election campaign and the Government should now get down to the job which lay before it. He proposed to make only a few changes in his Ministerial team and hoped that these could be announced within the next two or three days. Now that the Election was over the normal rules about Ministerial acceptance of invitations to broadcast or give Press interviews would apply; and it was also very important to maintain the cohesiveness of the Cabinet and observance of the rules about collective responsibility. A new version of "Questions of Procedure for Ministers" would be circulated shortly and careful attention should be given to it.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Cabinet as a whole would wish to congratulate the Prime Minister both on the result of the Election and on the part which he personally had played in achieving it.

In the course of a general discussion it was noted that the Committee on The Queen's Speech and the Future Legislative Programme had already been established. The Committee would finish its work during the course of the present week, and the Cabinet would then consider the legislative programme on 22 October and finalise
The Queen's Speech on 24 October. This would allow account to be taken of views expressed at a meeting of the Parliamentary Labour Party early in the following week before the Cabinet finalised The Queen's Speech. The timetable for carrying out the Government's policies would of course be settled in discussion of the future legislative programme. The overall economic situation was an extremely difficult one and an argument could be mounted for concentrating initially on uncontroversial measures which were directly relevant to it and postponing until a later date measures which might be both more controversial and less immediately essential. In this context the public expenditure situation was relevant since if the Government's economic policies were to command success, public expenditure must be reined back in the earlier years in the belief that greater resources would become available later. On the other hand there were powerful arguments which pointed in the opposite direction. It was generally a sound strategy for a Government to carry its controversial legislation early in the lifetime of the Parliament, and this might be particularly relevant for the present Government, which could face a more difficult Parliamentary situation in 1976 if by-election results went against them at a time before the benefits of North Sea oil began to be felt. It was also relevant that the social contract comprised two parts: and the unions could not be expected to observe continuing restraint on incomes unless the Government were seen to be acting on other matters to which the trade union movement as a whole attached importance.

The development of the social contract would clearly be of crucial importance. The need to narrow differentials and to avoid leapfrogging would give rise to particular problems. Leading members of the Trades Union Congress were being as helpful as possible but their influence on particular claims was necessarily limited and if restraint did not continue through the spring of next year a very serious situation would arise. In this context the suggestion was made that, however much the Government might dislike the idea of a return to statutory controls over incomes, they should not unalterably commit themselves against them. On the other hand it was argued strongly that such controls had been shown to be ineffective and that the Government was already so heavily committed against their reintroduction that it was unthinkable to imply that they might be held in reserve. Furthermore, if the impression were given that the Government would reintroduce such controls in the event of the social contract breaking down, this would of itself destroy the social contract by encouraging a rush of pre-emptive claims. There was much to be said therefore for the Government nailing its colours to the mast, although it was also argued that there was no need, at the present time, for mention to be made of either the existence or the absence of a fall-back position.
The point was also made that a decision to proceed with the Government's full Manifesto was not inconsistent with the desire which many people had for a greater sense of national unity. The Conservative approach to this theme during the Election had however been no more than an attempt at a political contrivance by which to obtain power. National unity could not be achieved in peacetime by inviting people of different views to partake in Government but by convincing the country as a whole that the Government had policies which would be fair to all. A new consensus had to be struck and in this context there was general agreement that the line which the Prime Minister had taken in his Ministerial broadcast the previous evening had been exactly right. It was important when stressing the seriousness of the situation also to sound a note of hope.

In further discussion the following main points were made -

a. Very serious and urgent thought would have to be given to the energy situation. It was right to cover the oil deficit by borrowing and the Chancellor of the Exchequer's proposals about recycling surplus oil revenues had been generally welcomed by all countries at the recent International Monetary Fund meeting except the United States. A dialogue had begun with the oil producers which we were in a good position to conduct as a future major oil producer ourselves. In due course North Sea oil should transform our position, but it would not be sufficient simply to borrow against it in the meantime. We had also to take action to reduce consumption. This would involve both energy conservation measures and a more realistic approach to energy pricing. The latter was desirable in the conservation context, but it might also enable more to be spent on other socially desirable programmes by reducing subsidies to the nationalised industries. A campaign for energy conservation might also be linked with a campaign against waste more generally.

b. Despite what had been said earlier about the desirability of carrying controversial legislation early in the new Parliament, it had to be remembered that the programme was also determined by the readiness of Bills and the availability of Parliamentary time. Two major finance Bills and the arrangements being made for the scrutiny of European Economic Community legislation would limit the number of controversial Bills that could be passed in the next Session and it was arguable that the existing draft of The Queen's Speech already had too much in it. A particular problem might arise in the House of Lords: hitherto the Tory majority had been concerned to avoid provoking an early Election, but this
situation had now changed and the Conservative Front Bench might have difficulty in controlling some of their backbenchers. It would also be important to try to ensure a reasonably even flow of business in the House of Lords, perhaps by introducing some Bills in that House.

c. The Election results in Scotland were much better than they might have been, and great credit was due to the Secretary of State for Scotland. Devolution had not featured prominently in the Election campaign but in the present political situation it would be important to get on with the Government's proposals for devolution as quickly as possible. In this context the Cabinet were informed that a new unit was being established in the Cabinet Office to deal with long-term constitutional questions including particularly the detailed working out and management of the devolution process.

THE PRIME MINISTER, summing up the discussion, said that it had been a useful initial stocktaking. A further opportunity for a general discussion in depth would occur at their next meeting when the Cabinet would consider a paper which the Central Policy Review Staff had prepared on strategy and priorities. He also noted and welcomed the suggestion which a number of his colleagues had made for occasional all-day discussions at Chequers on major strategic issues. He would like members of the Cabinet now to call in their junior Ministers and brief them generally on the Government's approach. In doing so, they should emphasise the commitment to the Manifesto as a whole and the Government's intention to plan for a full Parliament. The attention of junior Ministers should also be specifically drawn to the points he had made at the beginning of their discussion about the need for strict observance of the rules on procedure.

Cabinet Office

16 October 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 17 OCTOBER 1974
at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales
SECRET

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland (Item 4)

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

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr B C Cubbon (Item 1)
Mr H F T Smith (Items 1 and 2)
Mr J A Hamilton (Items 3 and 4)
Mr J Anson (Item 4)
Mr R J O'Neill (Item 1)
Mr J Peters (Item 3)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>SUGAR</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>CYPRUS</td>
<td>4</td>
</tr>
<tr>
<td>3</td>
<td>OIL SHARING</td>
<td>5</td>
</tr>
<tr>
<td>4</td>
<td>STRATEGY AND PRIORITIES</td>
<td>6</td>
</tr>
</tbody>
</table>
1. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Ministerial Committee on European Community Questions (EQ) had approved on the previous day the line which the Minister of Agriculture should take on the subject of sugar at a meeting of the Council of Ministers (Agriculture) of the European Economic Community (EEC) which was to take place in Luxembourg on 21 October. Over the next year the United Kingdom faced serious difficulties over sugar supplies. Our annual consumption was approximately 2.6 million tons. From our own production and imports from our traditional suppliers we could count on supplies of 1.6 million tons. Other EEC countries might be able to supply us with a further 400,000 tons, but this left a shortfall of 600,000 tons and a particularly serious situation in the first half of 1975. We had accordingly been negotiating with Australia for the conclusion of a new long-term agreement under which Australia would supply us with 300,000 tons annually for five years from June 1975 and might also make available an additional 200,000 tons early next year. The Australians insisted that any agreement should be endorsed by the EEC. The Community was unlikely to agree to a five-year agreement with Australia, particularly at the price level the Australians wanted which would be above the internal EEC price with provision for indexation to keep it above the EEC price. The Commission had proposed as an alternative that the Community should assume the responsibility for ensuring our sugar supplies next year, buying the necessary supplies on the world market (which would include supplies from Australia) and selling it to the United Kingdom at the Community threshold price, which was at present £115 per ton. There remained points to resolve to ensure that this proposal would work effectively but it offered very substantial financial advantages to the consumer and to the balance of payments - the cost of the EEC subsidy could be of the order of £75 - £125 million and the EQ Committee had agreed that the Minister of Agriculture should seek endorsement at the Council both for the Commission proposal and for the deal which had been negotiated with Australia. If the Commission proposal was not approved, we should insist on the Australian agreement. That agreement did not offer a complete solution to our problems in 1975, however, and in the last resort we should accept the Commission proposal (provided the details were satisfactory) even if we could not get endorsement of the Australian deal. The EQ Committee had also discussed the level of United Kingdom production quotas which we should seek under the new EEC internal sugar regime. There was general agreement that we should seek an increase in the United Kingdom quota to 1.25 million tons, or at least 1.1 million tons, and that we should seek a maximum total for Community sugar production at a level somewhat below self-sufficiency, with a view to safeguarding the interests of developing Commonwealth sugar producers. But under present world market conditions sugar producers were likely to have
no difficulty in selling their sugar at good prices, and in the event the Minister of Agriculture might have to accept the principle of Community self-sufficiency. The Minister of Agriculture had been asked to take full account of the interests of the developing Commonwealth sugar producers in all these negotiations on the basis of our firm commitment to secure access for 1.4 million tons annually at a fair price. The price ought to be not less than £140 per ton, and suitable arrangements should be made for purchasing and for the allocation of supplies to United Kingdom refineries. There appeared to be some prospect that the Minister of Agriculture could obtain agreement to satisfactory arrangements on all these points in the Council of Ministers, but we should still face the prospect of shortages of sugar in the first half of 1975 and increases in price of the order of 6p to 8p for a 2 lb packet.

In discussion it was pointed out that Australia was prepared to leave the proposed agreement open only until 22 October. If we accepted the Commission’s proposal to subsidise supplies and abandoned the Australian deal, we should be giving up an important option for future sugar supplies. It was therefore important that the commitment by the Community to guarantee to supply us with sugar should not be limited financially, or limited in time to one year only. On the other hand, it was suggested that while any Community arrangement would be formally for one year in the first instance, it would be hard for other Community Governments to argue that it should not then continue. Moreover, we could expect a substantial increase in internal sugar production by the end of 1975 and perhaps some easing in the world market situation. Our commitment to obtain access for 1.4 million tons of sugar from the developing Commonwealth was most important, and the Commission’s proposal if accepted would provide a strong incentive to the rest of the Community to honour that commitment in full. But there remained a conflict of interest between the interests of our consumers and growers and the balance of payments on the one hand, and the interests of the sugar producing countries of the developing world on the other.

In further discussion it was pointed out that if the United States removed import controls for sugar (as was likely), the prospects of our obtaining the sugar we needed could become still worse. There was some reason to suspect that sugar was being withheld from the market, perhaps in anticipation of increases in price. The Ministers concerned were watching the supply position carefully and were considering action to equalise the domestic price of sugar imported at differing prices from the Commonwealth, the EEC and the world market.
THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the conclusions reached by the EQ Committee on the line which the Minister of Agriculture should take in the Council of Ministers on 21 October, subject to the need to obtain the best possible assurance that a Community subsidy for our sugar supplies would not be limited to one year only.

The Cabinet -

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

2. Invited the Minister of Agriculture, Fisheries and Food, at the meeting of the Council of Ministers (Agriculture) on 21 October, to be guided accordingly.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that he saw no prospect of early progress towards a political settlement in Cyprus. The Greek Government were preoccupied with their forthcoming elections and Turkey had a caretaker Government. The talks between the acting President of Cyprus, Mr Clerides, and the Vice President, Mr Denktash, had so far been confined to humanitarian issues. There had been a recent indication that they might begin talking about a possible withdrawal of the Turkish forces to a new line. This would be a welcome development, but it would of course fall far short of a settlement. He was aware of the view which some people held strongly that the United Nations should have demonstrated greater authority in this situation and that we should promote a resolution which would lay down a general framework within which a settlement should be made. There were of course United Nations resolutions calling upon the Turks to withdraw, and he had assured the United Nations of our support in any moves likely to contribute to a settlement. The prevailing view in the United Nations was however that at the present juncture it would not be helpful to attempt to specify conditions for a settlement. He shared this view. Any draft resolution of the kind proposed was bound to be blocked. The best hope for progress in present circumstances lay in the talks between Mr Clerides and Mr Denktash, with both of whom the personal representative in Cyprus of Dr Waldheim, the Secretary General of the United Nations, was in constant touch.

The Cabinet -

Took note of the statement by the Foreign and Commonwealth Secretary.
3. THE SECRETARY OF STATE FOR ENERGY said that as a result of hard negotiations in the twelve-nation Energy Co-ordinating Group an agreement had been drafted for setting up an International Energy Programme (IEP). The Ministerial Committee on Energy had discussed this the previous day, and had concluded that the British Government should accept the agreement and put it into provisional operation. The agreement covered arrangements for emergency oil sharing, for relations with the oil producers, and for long-term co-operation on energy matters: the participating countries would include members of the European Economic Community (EEC), the United States and Japan. It was proposed that the IEP would be managed by an Agency within the framework of the Organisation for Economic Co-operation and Development. The agreement secured three main objectives: co-operation with the United States on energy problems, effective protection against emergencies resulting from shortages of oil, and a basis for securing co-operation between oil consumers and producers. It would ensure that even if there were to be a cut-back of 50 per cent in Arab oil production, the participating countries could last for well over a year with only a 10 per cent cut in normal consumption; and because the operation of the agreement was largely automatic, the participation of the United States was assured. However, the agreement also provided that participating countries could withdraw after three years (and twelve months' notice). Finally, the agreement offered the advantage that the British Government's obligation to export oil during an emergency would be restricted; and it was a better arrangement than could be made within the framework of the EEC.

He proposed, if the Cabinet agreed, to make a statement in Parliament as soon as possible that the Government accepted the agreement and were willing to put it into provisional operation; the statement would of course be drafted in consultation with the other Ministers most concerned.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet endorsed the agreement which the Secretary of State had described, and agreed that a statement should be made to Parliament as soon as possible.

The Cabinet -

Invited the Secretary of State for Energy, in consultation with the Secretary of State for Foreign and Commonwealth Affairs and the Secretaries of State for Scotland and Wales, to draft a statement for Parliament on the Government's acceptance of the agreement on the International Energy Programme.
4. The Cabinet considered a note by the Secretary of the Cabinet (C(74) 110), to which was attached a memorandum by the Central Policy Review Staff (CPRS) on Government Strategy and Priorities.

THE PRIME MINISTER said that it had on occasion been suggested that Ministers did not have sufficient opportunity for longer-term collective examinations of the Government's programme as a whole. One of the main functions of the CPRS was to help them to do this, and their memorandum had been circulated as a basis for such a discussion. While the CPRS would not argue that they had necessarily got the picture exactly right, their object had been to provide a background against which Ministers could form a strategic view. No specific decisions would be taken on the memorandum: these would come to Cabinet in the ordinary way, but the discussion should provide a useful background to later discussions on, for example, The Queen's Speech, the legislative programme, the Price Code, public expenditure and the Budget. The memorandum might also form the basis of a further discussion of Government strategy at Chequers after the Budget.

In discussion, it was at first suggested that the CPRS memorandum was based on unduly pessimistic assumptions, and did not offer solutions for the problems which it raised. It represented a different Manifesto from that on which the Government had successfully fought the election, and it had been written from an essentially managerial point of view. Moreover, it was not practicable, in a democratic society, to sacrifice everything to longer-term considerations. The paper also did not place sufficient stress on the international dimension of the problem, particularly the real likelihood of a breakdown in the international monetary system. On the other hand, there was general agreement that the memorandum had been successful in its intended purpose, which was to stimulate a wide ranging discussion, although not necessarily agreement on every issue. It was right that the CPRS should address Ministers frankly on the problems confronting them, and they should continue to do so: and it was by no means certain that the assumptions in the report would turn out to be too pessimistic. A general strategic discussion of this kind was a valuable new initiative, which should be repeated at regular intervals.

In further discussion, several Ministers endorsed the argument in the memorandum about the need for the Government to get their policies across to the nation. There had been evidence during the recent election campaign that people appreciated that the country faced a grave economic situation, but they also wanted to know why this had arisen, what the Government would do about it, and how
they themselves could help. The Government should explain that the difficulties did not arise wholly from our own failings, but from the impact of external events, especially the enormous increase in oil prices. There was a case for introducing measures, such as petrol rationing, designed to bring home the nature of the problem to every family in the country. Such action might also help to restore international confidence in the United Kingdom, which was at present at a low ebb. At the same time, it was important to stress that there was light at the end of the tunnel: the production of oil from the North Sea would put us in a more favourable position than many other Western European countries. The memorandum had also drawn attention to the fact that the public had come to believe that everything that was desirable was possible, and that to convince them otherwise would require a major effort in education and persuasion directed not only at the public but at pressure groups and the professions. Plans were already in hand for a new kind of social survey designed to show the extent of the need for social services and the resources and manpower available to meet them. Discussions would be held with the professions on how the resources could best be used to meet the needs. It would also be necessary to take steps to strengthen the social contract and obtain a fuller measure of acceptance for it. The reports of widespread strikes in Scotland showed that it was not yet fully understood. While efforts were being made to deal with individual disputes, the Government should also consider bringing forward, no later than the Budget, a package of measures designed to reinforce the social contract in a number of fields. The education and persuasion of the public must be seen as a two-way process. At present, the Government were handicapped by having to use the existing media of communication. Urgent consideration should be given to the possibility of televising Parliament, which would enable the Government's case to be more effectively projected to the population at large. The trades unions should also be encouraged to explain the situation to their members; and Government supporters in Parliament should be encouraged to address trades union schools and classes on a far larger scale than hitherto.

During the course of discussion, the following further points were also made -

a. A number of decisions which the Government would need to take during the near future would have an adverse effect on the retail price index. If the social contract was to hold, it would be necessary to seek ways of offsetting this effect, and to avoid creating inflation by direct Government action.
b. In order to strengthen the social contract, consideration should also be given to a possible cut in Ministerial salaries, and to restraint on increases in higher salaries generally. But the standard of living of those on higher incomes was in fact already being eroded by inflation and the tax structure; for example, even if those earning £7–£10,000 a year were given increases in gross salaries equal to the rise in the cost of living, their actual standard of living would decline by 8½ per cent this year. However, if the social contract was to be implemented, those earning £30–£40 a week would be being asked to accept a compression of their differentials, and it would be inconsistent to ask for this at the same time as those on higher salaries were maintaining differentials.

c. Remedies should be sought for the present weaknesses in our system of economic management. While there were a considerable number of macro-economic techniques available, these were very uncertain in effect; and there were not sufficient instruments for the Government to use at the micro-economic level. There was also a need for closer integration of micro-economic and macro-economic management. New forms of training, and possibly a different career structure, might be needed for civil servants if they were to carry the responsibilities which the Government wanted Departments to undertake. On the other hand, it was argued that the recruitment of more highly qualified staff would not necessarily lead to better decisions. A preferable course might be to involve people at all levels of industry in decisions through the medium of the proposed Planning Agreements. It might also be desirable to reverse the present trend towards concentration in large economic units.

d. There was a tendency in economic discussions to place emphasis on capital resources rather than on manpower, which was the most important resource of all. The Manpower Services Commission should be strengthened, and the Cabinet should have an opportunity to discuss what contribution further education establishments and schools could make to the economy, in collaboration with industry. There was also a need for better manpower forecasting, which should help the universities to adjust the balance of their courses to future economic needs.
e. While in general the memorandum might be right that public expenditure increases were an unsatisfactory instrument of short-term demand management, there was a case for making an exception for a special stimulus to the construction industry, in view of the central importance of this industry in the economy. The present number of unsold houses represented a very urgent problem. In view of the constraints on resources, there was a case for a further look at the scope for greater austerity in standards of provision in the various public construction programmes. Savings might also be sought in the administrative expenditure envisaged in the proposals for the nationalisation of development land.

f. Experience had shown the difficulties involved both in improving the rate of growth and in dealing with inflation. While it was right to try to increase the growth rate, it would be unwise to count on an increase. Moreover while it was possible, in the last resort, to live with a poor rate of growth, the country could not live with an unsatisfactory rate of inflation. It would be instructive to conduct an exercise on ways in which inflation could be brought down if there were no political constraints to consider.

g. The memorandum had not brought out fully the international aspects of the economic problem, such as the need for recycling of the earnings of the oil-producing countries. It was unsatisfactory that there was no continuous monitoring of the economic performance of other countries. More emphasis should be placed on import savings: for example, the recent developments which might enable more soft wheat to be used in bread, and the possibilities of energy saving through stricter building regulations.

h. The problems of the Third World were becoming increasingly acute, and the gap between these countries and the industrialised countries was growing continuously. The Manifesto commitment regarding overseas aid should be regarded as a moral imperative taking precedence over all others. Our action in this field should however be undertaken within the international community, including Third World countries with growing oil revenues.
THE PRIME MINISTER, summing up the discussion, said that the function of the CPRS was not to provide solutions to all the questions which they had raised in their memorandum. That was a matter for Cabinet, and for individual Ministers and their Departments. The purpose of the memorandum was to provoke a collective discussion of strategy and priorities, and it had in fact given rise to a very worthwhile discussion. The CPRS should continue to produce synoptic papers of this kind from time to time. The Cabinet would need to consider the suggestion which had been made about a possible reduction of Ministerial salaries, as a way of giving a lead to other recipients of high salaries. Such an initiative should however be aimed primarily at those earning salaries higher than those of Cabinet Ministers, and with capital behind them, rather than those in the £7—£10,000 range. The Cabinet would also need to consider whether The Queen’s Speech should include a commitment to give Parliament an early opportunity to consider the question of televising its proceedings. He would arrange a further meeting at Chequers at which the Cabinet would be able to continue their discussion of general Government strategy. In preparation for this, all Cabinet Ministers were invited to circulate papers putting forward their own proposals. Such papers should however be as short and specific as possible, and should concentrate on solutions rather than analysis. At the same time, the Cabinet would wish to consider the paper which the Secretaries of State for Employment and Industry had been invited to circulate on ways of encouraging economic growth; and papers on possible reductions in standards of provision in public expenditure programmes, and on limiting private non-essential building in favour of public capital expenditure.

The Cabinet -

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

Cabinet Office

17 October 1974
Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 22 OCTOBER 1974
at 9.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland
The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General

Mr Clinton Davis MP
Parliamentary Under-Secretary of State, Department of Trade (Item 2)

SECRETARIAT

Sir John Hunt
Mr P Benner
Mr K R Stowe

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>LEGISLATIVE PROGRAMME 1974-75</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT</td>
<td>4</td>
</tr>
</tbody>
</table>
1. The Cabinet had before them a memorandum by the Lord President of the Council (C(74) 111) about the legislative programme for 1974-75.

THE LORD PRESIDENT said that the programme of Bills proposed for the first Session of the new Parliament totalled 107, which was far too many. The Queen’s Speech and Future Legislation Committee had, therefore, classified the Bills into categories of importance: Essential Bills were those needed because otherwise powers or finance would lapse; Contingent Bills were those which might become necessary and, if they did, would be Essential; Main Programme Bills were the Government’s major items of legislation. The latter had been grouped into Bills of Top Priority, for completion in the Session, Priority for completion if and when time became available, and No-Priority. Parliament would be heavily engaged with Finance Bills for a large part of the Session and taking this into account it was clear that even the Top Priority category of Bills was overloaded. These difficulties would, of course, be compounded if the Bills were delayed in production so that the later part of the Session was congested. He would, therefore, welcome proposals from the Cabinet for shortening the programme.

In discussion it was argued that the major Bills proposed for the Top Priority programme were essential to the Government’s fulfilment of its Manifesto commitments and that there was everything to be said for bringing them forward sooner rather than later: this was especially so if they did not materially affect public expenditure. Moreover, it was good strategy to bring forward in the first Session as many as possible of the Bills which were politically controversial, applying a guillotine to Commons debates if necessary, even though this might result in longer debates in the Lords. If in the event some Bills had not progressed beyond Second Reading by the end of the first Session, this would not be disastrous.

In further discussion the following points were made -

a. Seat Belts, which was short and now ready, should be brought forward as a Top Priority Bill.

b. Channel Tunnel might not need to be dealt with as an Essential Bill, depending upon the outcome of a policy review of the Channel Tunnel scheme which would shortly be put before the Cabinet.
c. The Government was committed to legislation on Public Lending Right before the end of the year and this Bill, which was virtually ready, should, therefore, be brought forward as soon as possible as a Top Priority Bill.

d. A small Weights and Measures Bill would be needed urgently to legalise the sale of sugar in metric packs.

e. In view of further instances of child cruelty, the Children Bill was vitally important: since it would be non-controversial, and should not, therefore, impede other Bills, it could be brought in very quickly.

f. It was for consideration whether Industry 2 should be deferred; but, as against this, it was argued that the delay would serve only to prolong uncertainty in the industries concerned and that it was better to introduce controversial measures of this kind as soon as possible.

g. The place of Child Allowances could not be settled until the Chancellor of the Exchequer and the Secretary of State for Social Services had reached conclusions as to the date for implementation of the new scheme: if this were not until April 1977, there was a case for deferring the Bill to the next Session.

h. Mobility Allowance would need to have received Royal Assent by the Summer Recess if the scheme were to go forward as approved; consideration should, however, be given to including these provisions in one of the other Social Security Bills.

i. Foreign Compensation could, if it would help, be dropped.

j. Trustee Savings Bank was more important than its categorisation as a Second Reading Committee Bill suggested, and should desirably be passed by next year.

k. Work was proceeding on the implementation of the Briggs Report on Nursing, in the Nurses, Health Visitors and Midwives Bill, and it would be helpful if this Bill could be got ready in case opportunity arose for implementing it this Session. It was pointed out, however, that it would be wrong to pre-empt the time of Parliamentary Counsel on such a speculative basis.
1. Construction Industry Contracts was being discussed urgently between the Ministers concerned and the Trades Union Congress, and policy issues would be brought to the Ministerial Committee on Economic Policy, Sub-Committee on Pay Negotiations next week. Once these were settled it was desirable that this Bill, which would be controversial, should be brought forward as soon as possible.

m. The volume of Northern Ireland legislation, whether by Bill or by Order-in-Council under the Northern Ireland Act 1974, posed a particular problem and it might be necessary to set up a Northern Ireland Committee to deal with it. The Secretary of State for Northern Ireland would write to the Lord President of the Council about this.

n. The possibility might be considered of combining in a Miscellaneous Powers Bill some of the proposed legislation which, though important, was on a small scale; but a solution on these lines could not be adopted in advance of the report of the Renton Committee on legislation.

o. Consideration should be given to the combination of the Scottish and Welsh Development Agency Bills.

THE PRIME MINISTER, summing up the discussion, said the Government should approach its legislative programme as a new Government with a fresh mandate, and should adopt the strategy, which had been successful in the past, of bringing forward in its first Session the legislation which would be most likely to generate Party political controversy. The programme put forward by the Lord President was consistent with this approach, and the Cabinet agreed that it should be adopted. They accepted, however, that because of the number of Bills proposed, and of the many uncertainties about their preparation and progress through Parliament, there would have to be some flexibility in the arrangements for bringing Bills forward. The Lord President and the Chief Whip should, in their day-to-day management of the programme, take account of the points made in discussion about the relative importance of particular Bills. Departmental Ministers had a particular responsibility to ensure that policy proposals, on which the preparation of Bills depended, were brought forward for collective consideration by Ministers in good time and that every effort was made to have the Bills ready for introduction at the appropriate time. The Lord President would need to take stock of progress by Christmas, and should circulate a progress report on the basis of which the Cabinet could review the programme again in January. It might be necessary to discard some Bills at that stage if progress was unsatisfactory.
The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Lord President of the Council to proceed accordingly.

2. The Cabinet had before them a memorandum by the Lord President of the Council (C(74) 112 (Revise)), to which was appended a draft of The Queen's Speech on the Opening of Parliament which had been prepared by The Queen's Speech and Future Legislation Committee.

The Cabinet examined the draft paragraph by paragraph.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were in general agreement with the draft Speech, subject to amendments on lines which had been agreed in discussion. The paragraph on Northern Ireland should be reviewed and the Secretary of State for Northern Ireland had undertaken to provide an alternative form of words. Further consideration should also be given to the passage referring to legislation for the establishment of Scottish and Welsh Development Agencies, and the Lord President should discuss this with the Secretaries of State for Scotland and for Wales. In the light of the decisions then reached and of the Cabinet's discussion, he should circulate a revised draft of the Speech for final approval by the Cabinet at their meeting on 24 October.

The Cabinet -

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

Cabinet Office

22 October 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
THURSDAY 24 OCTOBER 1974
at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales
SECRET

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

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

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government

ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General (Item 3)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 1 and 2)
Mr H F T Smith (Items 1 and 2)
Mr P Benner (Items 3-5)
Mr K R Stowe (Items 3-5)
Mr R J O'Neill (Items 1 and 2)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>THE INDUSTRIAL SITUATION</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Scotland</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>FOREIGN AFFAIRS</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Cyprus</td>
<td></td>
</tr>
<tr>
<td></td>
<td>South Africa</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>QUEEN'S SPEECH ON THE OPENING OF PARLIAMENT</td>
<td>5</td>
</tr>
<tr>
<td>4.</td>
<td>SUGAR</td>
<td>6</td>
</tr>
<tr>
<td>5.</td>
<td>JOINT COMMUNITY BORROWING</td>
<td>7</td>
</tr>
</tbody>
</table>
1. THE SECRETARY OF STATE FOR EMPLOYMENT, reporting on the industrial situation in Scotland, said that the strike of road haulage drivers was the most serious problem, and that the Advisory Conciliation and Arbitration Service (ACAS) had been making every effort to assist the parties to come to an early settlement. An offer which had been worked out with the assistance of ACAS had been rejected by a mass meeting of the road haulage workers against the advice of the Transport and General Workers Union (TGWU). The employers were now meeting to consider the position. If they did not agree to meet the further demands of the strikers, one possibility was that they would appeal direct to the Government for help; and, in this event, it would be necessary to consider urgently how best to respond. Meanwhile the advantage lay in leaving mediation with the ACAS, as the body established by the Government for this purpose, and in avoiding any statement or other action by the Government which might prejudice the chances of a solution. Mr Jack Jones, the Secretary of the TGWU, was in close touch, and he shared the view that there was no further initiative which could usefully be taken at the present moment.

The strikes by municipal refuse, sewerage and transport workers in Glasgow were quite separate from the road haulage dispute. Here too ACAS was fully engaged. The unions concerned wished to avoid a local settlement in Scotland which might prejudice the position of their members in England.

In discussion it was pointed out that the Government was subject to political attack, especially by the Scottish National Party, on the grounds of inaction and also from the angle of the social contract; it might be necessary therefore to make clear what the Government's attitude was. There was no present risk to health or increased danger of fire in Glasgow, though the situation would have to remain under close watch. Consideration was being given in the Civil Contingencies Unit to possible contingency plans, though on a strictly covert basis.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet recognised the potential difficulties presented by any statement by the Government in the immediate future and also the need to avoid any action which might prejudice the continuing role of ACAS. The Government would however probably have to make a statement in Parliament in the following week if matters were not settled before then. The Home Secretary should arrange for appropriate contingency planning in the Civil Contingencies Unit on a covert basis: but there would need to be collective Ministerial consideration before contingency plans were implemented.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that he had recently held talks with the Vice President of Cyprus, Mr Denktash, who had agreed that it would help his discussions with the Acting President, Mr Clerides, if some concessions could be offered on the extent of the Turkish military presence. Mr Denktash feared, however, that if such concessions were made President Makarios might return to Cyprus and pocket them while refusing to make any concessions in return. He had pointed out to Mr Denktash that the longer concessions were delayed, the greater became the risk that it would be President Makarios with whom the Vice President had to deal. In reality, however, the Turkish Government was unlikely to make any significant move at present, while any developments in the policy of the Greek Government would have to await the outcome of the Greek elections on 17 November. He had also discussed with Mr Denktash the problem of the Turkish Cypriot refugees in our Sovereign Base Areas. Mr Denktash wanted us to agree that the refugees should be removed by sea and taken to the Turkish controlled area of Cyprus by way of Turkey. This, however, would cause us difficulties with Greek Cypriot opinion since there was also a serious problem of Greek Cypriot refugees, including many in the Turkish held area. He had urged Mr Denktash to try to make progress on the refugee problem in his talks with Mr Clerides, and had sent a message to the Acting President in the same sense. He had suggested that particularly urgent attention should be given to the old, the young and the sick. He had also expressed concern to Mr Denktash about the looting of property belonging to British subjects in the Turkish area and had asked that steps should be taken to bring this to an end.

The Cabinet -

1. Took note of the statement by the Foreign and Commonwealth Secretary.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he greatly regretted the reports in the Press that he was critical of the Ministry of Defence over the conduct of the recent visit by units of the Royal Navy to Simonstown. He did not know the source of these reports; they were not inspired by him and he had no evidence that they emanated from his Department. He was nevertheless concerned about the effect of the publicity which had been given to the naval visit, which appeared not to have been conducted on the agreed basis. When they returned to office in March, the Government had decided that our policy towards South Africa should be seen to be consistent with our opposition to the internal policies followed by the South African Government. It had been decided to discontinue the sale of arms, to
refuse to sponsor sporting and cultural exchanges, and not to allow goodwill visits by the Royal Navy. Visits by Her Majesty's ships would be permitted from time to time if there were an operational requirement, and subject to consultation between Departments. In his view the continuance of the Simonstown Agreement should be considered in the light of the Defence Review. If we had an important security interest in maintaining the Agreement, this would have to be taken into account. If the security interest was marginal, the political objections to the Agreement might be overriding. Pending the outcome of the Defence Review it should be made clear that visits would be subjected to the strictest test of operational necessity. The South African Government had sought to obtain the maximum propaganda value out of the recent visit. They were under growing attack in the United Nations, where there was a move to expel them. He believed, however, that it was important to preserve the principle of universality in the United Nations because if this were breached there might be pressure to expel other countries. If South Africa were expelled, pressure to expel Israel would probably grow. He thought it important to make plain our attitude towards South Africa and the steps we had taken. He therefore proposed to speak on the foregoing lines at a meeting in his constituency the following day. He hoped that the Cabinet would agree in principle, and that the Prime Minister and the Secretary of State for Defence, to whom he had sent the text of his speech, would be able to agree to its terms.

THE SECRETARY OF STATE FOR DEFENCE said that he much appreciated what the Foreign and Commonwealth Secretary had said about reports of an alleged conflict between their two Departments. The Press reports had made it appear that comments had emanated from the Foreign and Commonwealth Office. Although the South African Government had certainly tried to make the most of the recent visit, the fact of the matter was that the Navy had not broken the agreed ground-rules. There had been two visits, both of which had been cleared between Ministers in the two Departments. The first visit had passed off quietly. Instructions had been issued by the Commander-in-Chief, Fleet, that such visits were to be treated as operational, that there were to be no special social functions. It had been correctly reported that a salute had been fired: this was in accordance with Queen's Regulations. Such social occasions as had taken place had been on the advice of and under arrangements made by the British Embassy. There had been no formal social occasions, and no official entertainment was offered on board ship.

In discussion it was suggested that we must assume the South African Government would try to exploit any visit by Her Majesty's ships. If as a result of the Defence Review it was decided to bring the Simonstown Agreement to an end, there would be advantage in
announcing this as soon as possible. It was also suggested that such steps as possible should be taken to counter the damage done by Press reports of a conflict between the Foreign and Commonwealth Office and the Ministry of Defence.

THE PRIME MINISTER, summing up the discussion, said that the Foreign and Commonwealth Secretary and the Secretary of State for Defence would report to him on the way in which the visit had been conducted and on the subsequent publicity. The Cabinet agreed that the Foreign and Commonwealth Secretary should deliver a speech on the lines he had indicated, subject to his own agreement and that of the Secretary of State for Defence on the text. He would be sending to members of the Cabinet a paper on the Defence Review, for discussion on 31 October. This paper should be treated as exceptionally secret; it was to be seen only by members of the Cabinet and, to the extent necessary, by their senior official advisers. Discussion of the Defence Review would include consideration of the Simonstown Agreement.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion.
The Cabinet resumed their consideration of the draft of The Queen's Speech on the Opening of Parliament. They had before them a memorandum by the Lord President of the Council (C(74) 113) to which was attached a revised draft of the Opening Speech.

The Cabinet considered the draft paragraph by paragraph.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the draft Speech subject to certain amendments which had been agreed in discussion. The inclusion of the reference to legislation to give further protection to policyholders of insurance companies was, however, dependent upon the Secretary of State for Trade and the Chancellor of the Exchequer being able to establish urgently that, when the Speech was published, the Government would be able to announce its intentions in sufficient detail to avoid uncertainty of a kind which might undermine confidence in insurance companies generally. The Secretariat should now prepare a final draft of the Speech which he would submit to Her Majesty for approval.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of the Cabinet to arrange for a final draft to be prepared for the Prime Minister to submit to The Queen for approval.
4. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, at the Prime Minister's request, he would be circulating to the Cabinet for consideration in the following week a paper setting out the agreement which had been reached in the Council of Ministers (Agriculture) and relating this both to the original entry negotiations and the Government's future policies. While it had not been possible to achieve all our objectives, the agreement reached had been within the terms of the brief approved by the Ministerial Committee on European Questions and endorsed by the Cabinet in the previous week. Although the scheme to meet our sugar deficit in 1974-75 at the Community price, which was less than the Australians were demanding and appreciably less than the world price, was formally for one year only, it would be hard for the Community to reject an extension and indeed the Commissioner for Agriculture had already talked in terms of a scheme running for two years. The scheme did not exclude the purchase of Australian sugar by the Community and it represented a good deal for the British consumer. The immediate problem had been to deal in the best possible way with the existing shortfall but the possibility of an agreement with Australia in the longer run had not been ruled out. Furthermore, the agreement provided for an increase in our beet sugar quota and progress had been made on the needs of the Commonwealth Protocol 22 countries.

In discussion some anxiety was expressed about the terms of the agreement and in particular the provision that it should run for one year only. This was an aspect which had greatly concerned some members of the Cabinet in their previous discussion, and the Cabinet should now have an opportunity of discussing in more detail the merits of the agreement which had been reached. For this reason it was important to establish whether the agreement was final and operative or whether it had been reached subject to ratification by the British Cabinet.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the parameters within which the Minister of Agriculture, Fisheries and Food had negotiated had been agreed in detail by Ministers collectively; and his initial study of the agreement showed that it was within the bracket of what we had decided we could accept. The negotiation had been a particularly difficult one and the Minister deserved considerable credit for what he had achieved. The agreement was not formally subject to ratification by member Governments and it was possible that the Community had already begun to purchase sugar on our behalf. There was however nothing to prevent the Cabinet from rejecting the agreement if they so wished. He suggested that further discussion of the merits of the agreement should be on the basis of the paper which the Minister would be circulating.
The Cabinet -

Agreed to resume their discussion of this question in the following week.

5. THE CHANCELLOR OF THE EXCHEQUER said that the Council of Ministers (Finance) at their meeting on 21 October had endorsed in principle a scheme by which the Community, in its own name and without further formal guarantee or security, would seek to borrow externally from oil surplus funds and would then lend without gain or loss to individual member States needing assistance to finance deficits attributable to increased oil costs. The obligation which the Community would be undertaking to the outside lender would be backed by internal Community arrangements under which, in the remote contingency of a borrowing member State being unable for a period to find foreign exchange to meet its repayments, the other member States would have to cover the required amount according to a prearranged distribution of underwriting liabilities. The scheme was a relatively modest one of up to $3 billion inclusive of principal and interest and it was likely that only Italy, and possibly Denmark, would want to take advantage of it. We had no current intention of borrowing from it ourselves; but he welcomed the scheme as one of a number of different international mechanisms which would be necessary for the recycling of petro-dollars. The scheme was still in an early stage however. Although legislation would probably not be required in this country, provision would be made for formal Parliamentary scrutiny. There would have to be a reference to the European Assembly, and some other Governments might need legislation. There would be no final commitment until the last stage in the process, when a specific borrowing operation was authorised by a future Council meeting.

In discussion some anxiety was expressed that any borrowing by this country might be made conditional on our continuing membership of the European Economic Community. It was however explained that this problem was most unlikely to arise before the decision on our continued membership in view of the fact that we had no current intention of borrowing from the fund.

The Cabinet -

Took note.

Cabinet Office

24 October 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
THURSDAY 31 OCTOBER 1974 at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales
SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 2)
Mr H F T Smith (Items 2 and 3)
Mr P Benner (Item 1)
Mr J Roberts (Item 3)
Mr R J O'Neill (Item 2)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>FOREIGN AFFAIRS</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Relations between the Soviet Union and the United States</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Middle East</td>
<td>2</td>
</tr>
<tr>
<td>3.</td>
<td>DEFENCE REVIEW</td>
<td>2</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. The Speaker had been considering accepting for debate on 4 or 5 November an amendment put down by the Liberal Party to the Address in reply to The Queen's Speech; but following representations had decided to accept only an amendment put down by the Conservative Party.

It was proposed that a free vote should be allowed on the Road Traffic (Seat Belts) Bill which was to be considered on Second Reading on 11 November.
PARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. The Speaker had been considering accepting for debate on 4 or 5 November an amendment put down by the Liberal Party to the Address in reply to The Queen’s Speech; but following representations had decided to accept only an amendment put down by the Conservative Party.

It was proposed that a free vote should be allowed on the Road Traffic (Seat Belts) Bill which was to be considered on Second Reading on 11 November.
2. **THE FOREIGN AND COMMONWEALTH SECRETARY** said that we had been informed of the impressions gained by the American Secretary of State, Dr Kissinger, in the course of his recent visit to Moscow. Mr Brezhnev, who clearly remained in firm control of Soviet policy, had shown some anxiety that the policy of detente which had marked Mr Nixon's approach to relations with the Soviet Union would not be pursued as vigorously by President Ford. Dr Kissinger's discussions with the Soviet leadership about strategic arms limitation appeared to have made little progress, but Dr Kissinger professed himself hopeful that there would be some forward movement in the coming year. The Russians had shown concern for the possible international consequences of the achievement by India of a nuclear explosion.

THE FOREIGN AND COMMONWEALTH SECRETARY said that at the recent meeting of Arab leaders in Rabat, King Hussein of Jordan had been obliged to yield ground to the Palestinian Liberation Organisation (PLO) in the context of future international negotiations, including the future of the West Bank of the Jordan. This would lead the Government of Israel to harden their positions; they were most unlikely to agree to negotiate directly with the PLO. Dr Kissinger appeared to be hopeful of some progress in the Middle East, but the situation during the next few months could well be difficult and the possibility that the Arabs would resort once again to a restriction of oil supplies as a means of putting pressure on Western countries could not be entirely excluded. It was important that the plans, national and international, for meeting an oil shortage should be advanced as quickly as possible.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.

3. The Cabinet considered a memorandum by the Prime Minister (C(74) 116) on the Defence Review. Their discussion is recorded separately.

Cabinet Office

31 October 1974
DEFENCE REVIEW

The Cabinet considered a memorandum by the Prime Minister (C(74) 116) about the defence review.

THE PRIME MINISTER said that his memorandum summarised the conclusions of a very detailed examination undertaken by the Defence and Overseas Policy Committee of our defence expenditure, commitments and capabilities. Their objective had been to determine the minimum essential level of our defence and the maximum savings on the defence budget. In view of the long timescales involved in defence planning it had been necessary to consider a 10 year period in order to achieve real reductions. If we continued with the present plans defence expenditure would amount to 6 per cent of Gross National Product (GNP) by 1978-79 and over 5½ percent by 1983-84. By drastically cutting commitments and capabilities the level of expenditure could be reduced to 4½ per cent of GNP by 1984 - a saving of £475 million a year by 1978-79 and £750 million a year by 1983-84 by comparison with the cost of existing plans. These were substantial savings and consistent with the Manifesto. It would not however be possible to avoid a modest rise in actual costs over the next 2 years, after which the figures would level off. But defence expenditure for next year would be contained within the growth limit of 2½ per cent for public expenditure generally. Some of the Government's supporters would think that the cuts in expenditure should be greater. There was likely to be criticism inside and outside Parliament, however, when the severity of the cuts that would have to be imposed on the Armed Forces became known. We would also face difficulties with our allies in the North Atlantic Treaty Organisation (NATO) and with some of our non-NATO partners. It would be necessary to withdraw from our non-NATO commitments to the maximum possible extent, although in some cases, such as Cyprus, the timing of withdrawal would depend upon the political situation. Major reductions would also have to be made in our contribution to NATO, but in a way which would not undermine allied
confidence or remove the incentive to the Russians to agree mutual force reductions. The conventional forces of the Warsaw Pact continued to grow and were out-distancing those of NATO.

In discussion it was argued that although our defence expenditure was greater than that of our major European allies when measured as a percentage of GNP, this reflected our low rate of growth, and in absolute terms we were falling behind both France and Germany. The severity of the proposed reduction in our commitments and capabilities was disturbing. Our standing as an ally, and our influence abroad, especially with the United States and the Soviet Union, would inevitably be weakened. To make even greater cuts would call in question our credibility as a member of the Alliance and endanger our relationship with the United States. Before we entered into the necessary consultation in NATO it would be important to discuss our proposals confidentially with the Americans and the Germans and, within the financial limits we had laid down, to be prepared if necessary to modify them in the light of their reactions.

On the other hand it was argued that a high level of defence spending was a contributory factor in our slow rate of growth. Major reductions were necessary if we were to strengthen the economy. The foreign exchange costs of maintaining forces in Europe were a heavy burden on our balance of payments. We alone among the European partners made a major contribution to NATO both on the Central Front and in the Eastern Atlantic and Channel. It might well be necessary to look for further savings within a few years.

In further discussion it was pointed out that the industrial implications of the proposed reductions should be manageable though there might be difficulties in particular areas. It would however be important at an early stage to have consultations with both sides of industry to minimise any adverse effects. It was also argued that, in view of the importance of the problems involved, further time should be provided for discussion of the strategic philosophy behind the proposals, and of certain particular aspects including the extent of our withdrawal from our non-NATO commitments and the proposal to maintain and improve our deterrent. On the other hand it was pointed out that our possession of an effective deterrent enabled us to exercise a degree of political influence, particularly with the United States (but also with the Soviet Union) much greater than that enjoyed by other members of NATO.

THE PRIME MINISTER, summing up the discussion, said that the issues involved in the defence review were of great complexity and importance and the Cabinet would resume their discussion at a later meeting. The programme for international consultation to which we were committed was however very tight.

The Cabinet -
Agreed to resume their discussion at a later meeting.

Cabinet Office
1 November 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 31 OCTOBER 1974
at 4.30 pm

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council (Items 1 and 2)

The Rt Hon Lord Elwyn-Jones
Lord Chancellor (Item 1)

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs
(In the Chair for Item 3)

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department (Item 1)

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment (Items 1 and 2)

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science
The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon John Silkin MP
Minister for Planning and Local Government

ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General (Items 2 and 3)

SECRETARIAT

Sir John Hunt
Mr H F T Smith (Items 1 and 2)
Mr J A Hamilton (Item 3)
Mr J Roberts (Items 1 and 2)
Mr J Peters (Item 3)

CONTENTS

Item                     Subject                                      Page
1. DEFENCE REVIEW         1
2. THE SIMONSTOWN AGREEMENT 1
3. INTERNATIONAL PROPERTY DEVELOPMENT (INDUSTRIAL) LIMITED 3
1. The Cabinet resumed their discussion of the Defence Review. Their discussion and the conclusions reached are recorded separately.

2. The Cabinet considered a memorandum by the Foreign and Commonwealth Secretary (C(74) 119) about the Simonstown Agreement.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Simonstown Agreement was politically damaging and if, in the light of the Defence Review, the future value of the agreement for our defence was only marginal it should be brought to an end or allowed to wither. There was no provision in the Agreement for unilateral abrogation and if we were to take that course we should appear to be in breach of international law and would increase the antagonism of the South Africans. It would in any case be desirable before announcing a decision to withdraw from the Agreement to inform the Americans of our intention. He would also wish to consult the Ambassador in Cape Town about the best way of reducing the risk of South African retaliation. Thereafter he believed the best course would be to announce that we were about to enter into consultations with the South African Government with a view to terminating the Agreement. If, having tried in good faith, we were unsuccessful in these negotiations we should have to announce that we felt bound to regard the Agreement as at an end.

In discussion it was argued that, although the defence facilities available to us under the Simonstown Agreement were useful in peacetime and could be of importance in war, their value was not such as to justify continuance of the Agreement in view of the political objections. Termination of the Agreement would not preclude ships of the Royal Navy using South African ports in case of need.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the defence advantages of the Simonstown Agreement were outweighed by the political disadvantages; the Foreign and Commonwealth Secretary should therefore proceed as he proposed. An announcement of our intention to enter into negotiations with the South African Government with a view to terminating the Agreement should be made in the context of the statement which it was proposed to make on the Defence Review towards the end of November. The Foreign and Commonwealth Secretary would consider further, in consultation with the Attorney
General, the possible legal implications of unilateral abrogation if it proved impossible to reach agreement with the South African Government.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. The Cabinet considered memoranda by the Chancellor of the Exchequer (C(74) 115) and the Secretary of State for Industry (C(74) 118) about the Secretary of State's proposal to make a grant of £3.9 million to enable the convenors of International Property Development (Industrial) Limited (IPD) to acquire the business from the Receiver and run it as a workers' co-operative.

THE CHANCELLOR OF THE EXCHEQUER said that IPD had been in trouble for a long time. The Industrial Development Unit of the Department of Industry, after examining the workers' proposals, considered that the capital cost of continuing the business had been understated, that sales forecasts were too optimistic, and they doubted whether the factory could be competitive with the manning levels proposed and whether the enterprise would attract management of the calibre required. The Industrial Development Advisory Board (IDAB) were of the same opinion. It seemed clear that the business could not be run on a profitable basis; the fact that the workers' proposals offered an opportunity to establish a workers' co-operative was if anything an argument against this particular proposal, because it would be a disaster to the cause of workers' co-operatives in general to give help to a project that could not succeed. The Government were already giving support to the Meriden co-operative. The minimum cost of the proposed IPD co-operative had been estimated by officials at £4.8 million, and more capital would almost certainly be needed. The estimate that the assistance proposed represented a cost per job of some £4,300 was made on the basis of overmanning; other estimates, taking account of the reduced workforce and the possibility of further Government expenditure, ranged to over £11,000 per job. The Government were moving to the stage where a great deal of help for industry would have to be provided; but this must be done in ways which would be good for the economy as well as for industry. The prospects for success of the National Enterprise Board (NEB), of planning agreements, and of the rest of the Government's policy for industry, must not be prejudiced by supporting ventures which could not succeed. He therefore invited the Cabinet to agree that the project should no longer be supported.

THE SECRETARY OF STATE FOR INDUSTRY said that the affairs of IPD had been considered many times by the Ministerial Committee on Industrial Development. The balance of opinion on that Committee had been in favour of supporting the workers' proposal; it was therefore irrelevant that official advice pointed to a different conclusion. The IDAB had been appointed by the previous Government and Ministers were not obliged to be governed by its advice. After the company's troubled history which was well-known to members of the Cabinet, the workers had now put forward proposals which the appropriate Committee of Ministers had accepted.
Unemployment on Merseyside was 9.5 per cent, and at Kirby it was 10.5 per cent: there were no alternative possibilities of work for the workers at IPD if the co-operative did not go ahead. He had had many meetings with them, and they had now undertaken responsibility for the success of their proposals. They had made it clear that they would themselves be prepared to reduce the labour force if that was necessary for success: it was unrealistic to insist they should invest money as well as enthusiasm in IPD, if that meant that each worker was expected to put in a sum far beyond his means. The recent statement by the General Council of the Trades Union Congress on handling redundancies was relevant, as were the representations that had been made by the Merseyside and Liverpool Councils. From the point of view of industrial democracy, it was highly significant that the work-people at IPD had moved from an outlook of bitterness and resentment to one of enthusiasm. The Government spent millions of pounds on commissioning reports by academics on various aspects of industrial affairs; surely it would be more useful to provide support directly to a project of the sort now proposed; the money involved was insignificant by comparison with the amount which the Confederation of British Industry were proposing should be released in the form of Government help to the company sector. It was wrong to include in the estimates the possible cost of buying the factory; the capital cost of advance factories, for example, had never been included in such assessments in the past. With the co-operative at Meriden, and now with a co-operative at IPD, he was convinced that the Government would find the start of a new spirit of enthusiasm in the work force, which could eventually transform the outlook for industry.

In discussion it was argued that Ministers were being faced by more and more proposals for help to individual firms and co-operatives which were not backed up by the information needed for a sound judgment. While all would sympathise with the aims of the Secretary of State for Industry's proposal and with his dilemma when faced with the possibility of people being thrown out of work in an area of high unemployment, it must surely be taken into account that expert opinion was not in favour of the IPD proposal, and that proper estimates of the cost had not been provided. For example, the Government had already been supporting IPD at a cost of £150,000 a week, but this did not appear from the papers. No assessment had been given to Ministers about the likelihood that the loss which had dogged the business up to now could be turned into a profit. There was a serious risk that if the Government supported a project which was sure to fail, and which would almost certainly have lost all the money advanced to it within a year, they would have discredited important aspects of their industrial policy, and prejudiced the operations of the NEB. The Government were already investing in one co-operative experiment, at Meriden, and that should be enough to start with.
On the other hand, it was argued in support of the Secretary of State for Industry's proposal that Ministers on the Committee on Industrial Development had been impressed by the arguments of the workers' enthusiasm, the degree of unemployment in the area, and the possibility that success at IPD would have a widespread and beneficial psychological effect throughout industry. The problems of inflation and of incomes policy could not be solved without a new spirit in industry, and the way to this might well lie through devolution of responsibility to the work force. Experiments were therefore worth while, and should not be assessed on the strict basis of the usual criteria; a single co-operative experiment was not enough. In spite of the discouraging assessment made by the IDAB, there was surely a sporting chance of the project's success if the present overmanning were reduced or work shared, the unprofitable part of the business cut out, and suitable management acquired. As regards the argument that the failure of IPD might discredit the whole of the Government's industrial policy, it would be right to provide the assistance sought by the Secretary of State for Industry in the form of a once-for-all grant, making it clear that the Government had decided to invest this money in an experiment and that after this grant, no further funds would be forthcoming from the Government; the co-operative would be independent and must work out its own salvation.

In further discussion, it was pointed out that whatever the arguments in favour of supporting co-operatives in general, it was important that Ministers should be provided with the means of telling which projects were likely to succeed and which were not. The advisory bodies which were available to help the Secretary of State for Industry might need to be improved. In the case of IPD, it was essential to confirm that there would be no call on guarantees by the Export Credits Guarantee Department (ECGD) such as had belatedly been found necessary at Meriden.

THE FOREIGN AND COMMONWEALTH SECRETARY, summing up the discussion, said that the Cabinet agreed on balance that the Secretary of State for Industry should grant up to £3.9 million, less any money provided by the workers, to enable the workers' co-operative to acquire the business at IPD, on the clear understanding that this Government aid would be strictly once-and-for-all. The Secretary of State for Industry should ensure that the enterprise started on a basis which gave reasonable prospects of success; he should confirm that no guarantees from the ECGD would be called for; he should monitor the progress of the co-operative, and report regularly to the Ministerial Committee on Industrial Development.
The Cabinet -

1. Took note, with approval, of the Foreign and Commonwealth Secretary's summing up of their discussion.

2. Invited the Secretary of State for Industry to grant up to £3.9 million, less any money provided by the workers, to enable the workers' co-operative to acquire the business at International Property Development (Industrial) Limited on the conditions indicated in the summing up of their discussion.

Cabinet Office

1 November 1974
The Cabinet resumed their discussion on the defence review.

THE PRIME MINISTER said that concern had been expressed about the need for further discussion on certain aspects of the defence review. He agreed. The immediate question was whether the Cabinet could reach a provisional conclusion on his memorandum so that it could be used as the basis for confidential bilateral discussions with the Americans and the Germans. These discussions should take place soon, in preparation for our consultations in the North Atlantic Treaty Organisation (NATO). Early discussions should also be held with our partners in the Five Power Defence Agreement. After the talks with the Americans and Germans, and just before consultations began in NATO there would be a fairly full statement in Parliament. The draft of this statement would be considered fully by the Cabinet. In the meantime the Cabinet could pursue its discussion of certain particular aspects of the review.

He wished however to draw the attention of the Cabinet specifically to one matter which was mentioned in his memorandum. Under an agreement with us the Americans enjoyed certain facilities on the island of Diego Garcia in the Indian Ocean, where we also maintained a small communications group. The Americans wished to make a relatively modest extension of their facilities. This would be entirely at their own expense and we would be allowed to use the facilities. American use of the facilities in other than normal circumstances would be subject to joint decision. The Soviet Union had been establishing themselves in the area and the Americans wished to be in a position to respond to any further increase in Soviet strength. If, as suggested in the memorandum, we were to withdraw from Mauritius and Gan and if, as a result of discussion of the next item on the agenda, we were to end the Simonstown Agreement, the Americans would be still more concerned that their request about Diego Garcia should be granted. The facilities would also in those circumstances have somewhat greater value to us.
In discussion it was suggested that there should be an examination of the general problem of the impact of the reductions on the shipbuilding and aerospace industries and of the possibility of switching resources from these industries into other production. There should also be a study of the impact of the resource demands of defence on the economy.

It was also argued that before a final decision was taken on the future of Diego Garcia the views of the Indian Government and the governments of other countries in the area should be taken into account. On the other hand it was argued that the views of the Indian Government were well known, though they had been expressed with less vigour since India had carried out a nuclear explosion. In the end we would have to decide on the basis of our own interests between incurring a measure of criticism from India and some other countries and denying a request for which there was strategic justification and to which the Americans attached importance.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that confidential bilateral exchanges should take place as soon as possible with the Americans and the Germans on the basis of his memorandum, on the clear understanding that these were provisional conclusions and that the Government had yet to make its final decision. On 21 November there would be a statement in general terms in Parliament, and at the same time we would ask for discussions in NATO to begin in the course of the following week. A more definitive statement would be made to Parliament just before the NATO consultations opened, and the draft of this statement would be considered by the Cabinet, in the light of the bilateral exchanges with the Americans and Germans. The Central Policy Review Staff, in consultation with the Departments concerned, should take the lead in preparing urgent studies on the impact on the economy broadly of the resource demands of defence and on the implications of the proposed reductions for the shipbuilding and aerospace industries. These studies, and policy on the strategic nuclear deterrent would be discussed by the Cabinet in the course of the next few weeks. Discussions with both sides of industry should not begin until the proposed statement on the defence review was made to Parliament. The Lord Privy Seal would arrange for consultations between the Civil Service Department and the Ministry of Defence about the expected reductions in the number of civil servants employed by the Ministry of Defence.

The Cabinet -

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

Cabinet Office

4 November 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 5 NOVEMBER 1974
at 10.00 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor (Items 1 and 2)

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment
 ITEMS 1 AND 2

The Rt Hon Shirley Williams MP
Secretary of State for Prices and
Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services
 ITEMS 1 AND 2

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster
THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Judith Hart MP 
Minister of Overseas Development (Item 2)

Mr Joel Barnett MP 
Chief Secretary, Treasury (Item 2)

SECRETARIAT

Sir John Hunt
Mr P Benner (Items 1 and 3)
Mr J A Hamilton (Item 2)
Mr K R Stowe (Item 1)
Mr J A Marshall (Item 2)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>LATE IMPLEMENTATION OF THE HOUSING FINANCE ACT</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>PUBLIC EXPENDITURE</td>
<td>4</td>
</tr>
<tr>
<td>3.</td>
<td>RATE SUPPORT GRANT</td>
<td>11</td>
</tr>
</tbody>
</table>
1. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(74) 124) about late implementation of the Housing Finance Act 1972.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that in England and Wales 18 local authorities had defaulted in 1972-73 over the implementation of the Housing Finance Act and some 400 councillors were now liable to surcharges in respect of losses totalling £1.5 million. There were 3 courses open to the Government to deal with this situation. They could legislate to make good the losses from Exchequer funds: he would strongly oppose this, since it would condone defiance of the law at the taxpayers' expense, and the Government were in any case pledged against it. Secondly, they could let events take their course: this would, however, result in about 2 years of legal proceedings for recovery, leading to Court Orders, bailiffs and bankruptcies but with little prospect of recovering more than a few thousand pounds. It would distress many councillors of standing, including some who had genuinely believed that the Government of the day would have responded to their actions in England, as they had in Wales, by putting in Housing Commissioners to take over responsibility for the rent increases. He did not believe that such a policy of inaction would be acceptable. The final course was the compromise which had been considered by a meeting of Ministers under the Prime Minister's chairmanship. This would put responsibility for recovering the losses back on the councils that had incurred them, by requiring them to recover the sums by way of increases either in rents or in rates over the next 5 years. This would mean that surcharges and disqualifications for these councillors would not then arise. Because of local government reorganisation since 1972, however, many of the councils had been absorbed into bigger authorities and he thought it right to empower these authorities to increase rents or rates differentially so as to recover the money only from where it had been lost. Clay Cross was in a different position in that surcharges had already been made and had been the subject of Orders of the Court, and the councillors had been disqualified. He thought it right in these circumstances that the surcharges should stand and not be met in any way from public funds but the Government were committed to removal of the disqualification and, with reluctance, he would propose to legislate for this purpose. He considered that taken as a whole these proposals, although not ideal, were a practicable and humane solution to a difficult problem, although it was inevitable that they would be heavily criticised from both sides. If the Cabinet agreed he proposed to announce them on Wednesday 6 November.

In discussion it was agreed that the breaches of the law which had occurred should not be condoned by the Government and that the terms of the Secretary of State's announcement should make this very clear. It should also be made clear that if councils
chose to recover the money from the rates, this would not attract Rate Support Grant. The solution proposed for England and Wales would not, however, be appropriate for Scotland, since surcharges could only arise there when, following an auditor's report of a loss, the Secretary of State imposed them. There were some 170 councillors responsible for losses reported for 1972-73 totalling £1.6 million; and since the sums involved were plainly beyond the councillors' means to pay it was proposed that the Local Government (Scotland) Act 1947 should be amended so as to give the Secretary of State a power, in respect of surcharges arising from 1972-73, to have regard to all the circumstances of the case, including ability to pay, and to be able to reduce the surcharge accordingly. This power already existed for 1974-75 onwards under the previous Administration's legislation for local government reorganisation in Scotland.

In further discussion it was argued that the Government would do better to wipe the slate clean, as the National Executive Committee and the Conference of the Labour Party had desired, by paying the Clay Cross surcharges from the Exchequer. The councillors concerned had felt that they were defending the interests of their supporters, as they had promised to do, and that they were defending the rights of local authorities to fix their rents; they had led the opposition to the Housing Finance Act, which had been to the Government's advantage electorally. Moreover, retrospective legislation was not objectionable if it was beneficial to the individuals affected; and breaches of the law had been forgiven in other situations, for example, in respect of illegal Pakistani immigrants. As against this it was argued that the Government's supporters in Parliament were not expecting a general amnesty for the Clay Cross councillors, while their supporters in local authorities, especially in London and the Midlands, who had stood up to criticism for applying the law as it then stood, would be outraged if those who had broken it were to have their penalties met by the taxpayer.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed with the proposals put forward by the Secretary of State for the Environment and congratulated him and his officials on the ingenuity shown in meeting the Government's commitments while ensuring that responsibility for recovering the losses should be put upon the rent-payers and ratepayers in the areas where they were incurred. The fact that these proposals did not meet fully the views expressed by the National Executive Committee and by the Labour Party Conference was recognised; but it was important to understand that the Government's authority rested not upon resolutions of the Party Executive and Party Conference but upon the support of the Parliamentary Labour Party in the House of Commons. There was no doubt that the majority of the latter were very far from thinking it right for the taxpayer to meet
the financial liabilities of the Clay Cross councillors. The Government's commitment was to remove the disqualification on them and, under the Secretary of State for the Environment's proposals, this would be done from the date when the legislation had been given Royal Assent. As regards the other councils concerned, the proposals put forward for England and Wales and for Scotland would be regarded as fully meeting the Government's undertakings. The Secretary of State for the Environment and the Secretary of State for Scotland should announce the Government's proposals on Wednesday 6 November, the proposals for Scotland being referred to in the Secretary of State for the Environment's statement or published in reply to an arranged Question, as seemed most appropriate. The Secretary of State for the Environment should clear the text of the announcement urgently with members of the Cabinet.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for the Environment and the Secretary of State for Scotland to be guided accordingly.
2. The Cabinet had before them memoranda by the Chancellor of the Exchequer (C(74) 120), by the Secretary of State for Social Services (C(74) 122 and 123) and by the Minister of Overseas Development (C(74) 121), on public expenditure from 1974-75 to 1978-79.

THE PRIME MINISTER, introducing the discussion, reminded the Cabinet that they had already reached a broad decision on the overall allocation of resources, whereby public expenditure should be allowed to grow at 2½ per cent a year in demand terms over the period under consideration. They had not however completed their discussion of priorities within this overall ceiling, and at their request the Chancellor of the Exchequer had put forward an illustrative scheme. Members of the Cabinet would no doubt wish to suggest variations but this should be on the basis of a switch in resources and not simply proposals for additions.

THE CHANCELLOR OF THE EXCHEQUER said that there were two points of special urgency. The first was to settle the arrangements for next year's Rate Support Grant, which would be considered later as a separate item. The second was to agree public expenditure figures for 1975-76 for incorporation in the Budget he would be presenting on the following Tuesday: so long as firm agreement was reached on the total, some switching between programmes would be possible later, but it was also necessary to move towards decisions on the years up to 1978-79 to facilitate the preparation of the public expenditure White Paper, publication of which would almost certainly now slip to January. Public expenditure was under enormous pressures and he was grateful for the understanding he had had in his bilateral talks. The last published figures for 1975-76 had appeared in the Conservative Government's White Paper the previous December. Allowing for the increases likely to be necessary in the forthcoming Rate Support Grant settlement, and for the increases contemplated in his own paper for housing, health and education, the total for 1975-76 would show an increase of some £3,000 million compared with the figure given last December. The main areas of increase were housing (£1,170 million), social security (£768 million), trade and industry (£547 million) - mainly for price restraint - and agriculture and food (£534 million) - mainly food subsidies. For 1978-79, the programmes in the 1974 Public Expenditure Survey were some £3-400 million above the 2½ per cent guideline; and he was suggesting the addition of a further £135 million for social security improvements, being in his view the minimum necessary for family support. Table 3 of his paper identified further claims totalling £456 million, of which £165 million were distinguished for special consideration. He also drew attention to the prospective claims in Table 4, which included £3,000 million for public ownership; and although the resource effect of much of this would be small, it did create financing problems,
especially in 1975-76 when the borrowing requirement would be unprecedentedly high. In spite of these difficulties he had tried to help the spending Ministers; he had for example agreed to two upratings of social security benefits next year; to an increase in family allowances of 60p for the first qualifying child and 50p for the others; and to a substantial increase in the Rate Support Grant. He had also accepted that in 1975-76 expenditure on price support would have to be as high as in 1974-75. But it would be important by 1978-79 to get rid of all subsidies to nationalised industry prices, and to halve food subsidies, unpleasant though the political consequences might be. In his view the major priorities were housing, industrial and manpower policies and regional development. The phasing out of subsidies was essential to accommodate these, and he proposed to indicate this in his Budget speech. While housing investment was a priority, housing subsidies must not be allowed to grow above their present size, and this meant that there would have to be rent increases to this end. He emphasised also the need for the Government to take greater control over local authority current expenditure, the rate of increase in which must be reduced. Even if everything he had said about subsidies and local authority expenditure was accepted, there was still a need for reducing the planned expenditure in some other programmes. On Defence, he would be prepared to accept the figures for 1975-76 already discussed by Ministers but it could well prove necessary to reduce the amounts for later years faster and further than at present foreseen. Certain other programmes, all making heavy demands on goods and services, and mostly in the local authority field, would need to be cut, although even after cutting they would still be growing at a rate higher than public expenditure as a whole. In 1975-76, in view of the special problems facing some Ministers, he would wish to add £149 million to expenditure on local authority mortgages, the Housing Corporation, health, education and overseas aid. In 1978-79 he would favour an additional £100 million for local authority mortgages and £65 million for the Housing Corporation; but such increases in that year must mean offsetting cuts elsewhere, perhaps on the roads programme. He hoped the Cabinet would agree broadly with his illustrative scheme. He recognised the matter was a complex one, and he would try to find a simpler and more satisfactory way of presenting it next year. Meanwhile, he warned his colleagues that if they agreed to his general approach, they would be committing themselves to modifying both central and local government spending policies to turn it into a reality.

THE SECRETARY OF STATE FOR SOCIAL SERVICES, introducing her papers, said that it was necessary to consider where the proposed priorities would take the Government by 1978-79. In the field of family support, including nursery education, they would find that they had actually reduced financial support to families; there was a fall of £170 million between 1975-76 and 1976-77, partly because the proposed increases in family allowances did not restore
the earlier real level, and partly because the Chancellor proposed to postpone the introduction of child allowances to 1977, with no further uprating of family allowances before then. She felt it essential that some way be found of helping the first child of one-parent families. In the field of health, current expenditure would grow at an annual rate of only 2.8 per cent, where the Conservative Government had achieved 4.2 per cent. The programme as a whole would grow less rapidly than roads, which under the Chancellor's illustrative scheme would grow at a rate of 3.2 per cent. Turning to the Law and Order programme, she thought it was a wrong set of priorities which allowed a 40 per cent increase in capital expenditure on police, prisons and courts, while the services for young offenders ground to a halt for want of money. An urgent reassessment of overall priorities was necessary. She had reached agreement with the Chancellor of the Exchequer on the improvements in social security benefits to be made in 1975-76. Social security benefits had of necessity to keep pace with earnings, and this made the uprating next April essential. This would cost an extra £200 million next year, but even then, because she had agreed to the "historical" basis for assessing the increases in relation to the relevant movements in earnings and prices, beneficiaries would be receiving a smaller proportion of average national earnings next April than last July. She had agreed with the Chancellor that a second uprating in December would mean that there would be no Christmas bonus in 1975. Her other proposals were a modest improvement in some other benefits and in supplementary benefit disregards - the only thing which was being done for one-parent families. Family allowances would be increased from April 1975 but the introduction of the full scheme of child allowances would be postponed until 1977: she had accepted that the corresponding rate need not be settled now. Even with these improvements she doubted whether it was acceptable to reduce food subsidies as the Chancellor had suggested, and she urged on her colleagues the need for some gesture of support for one-parent families in 1976.

THE MINISTER OF OVERSEAS DEVELOPMENT said she recognised the problems which the Chancellor faced, and that her own request was a difficult one in the present situation. But it was unavoidable. In her view the proposed increase of £9 million in 1975-76 was not enough: the figure should be £30 million. She was, however, prepared to accept the proposed Survey figures for later years with the exception of the cut of £10 million in 1978-79. For 1975-76, the Chancellor's proposed addition of £9 million would mean - and would be seen to mean - no more than a standstill in the aid programme. Her own proposal would offer a recognisable increase. In the past the Cabinet had been motivated by a desire to help developing countries; but today the situation was one of crisis, with the possibility of a world slump. The developing countries represented some 18 per cent of the United Kingdom's trade and an
important part of that of other countries too. Their ability to continue that trade was thus directly linked with the United Kingdom's own economic self interest. Analyses by such bodies as the United Nations and the Organisation for Economic Co-operation and Development had shown that the countries which would be hardest hit by a world recession would be those who were traditionally recipients of British aid, such as India and Bangladesh, where political as well as economic breakdown was threatening. The aid programme had to be fixed in the light of the commitments in the Party Manifesto and in The Queen's Speech. The reference in the latter was being taken by voluntary organisations as a precise commitment to show some increase next year. The United States was unlikely to do more next year than in 1974-75, and this put a greater burden on other countries. The hope was that next year would begin to see the involvement of the Arab oil-producing countries in the provision of development aid; but this would take time, and in her judgment an additional £30 million next year was essential if the United Kingdom was to play its proper part.

In discussion there was general acceptance of the analysis presented by the Chancellor and of the approach represented by his illustrative scheme. There was broad agreement that housing - which had been referred to by every Labour speaker in the debate on The Queen's Speech - was a first priority. On overseas aid, there was also a general view that more money should be made available - both on grounds of moral commitment and because it would be important to mobilise the support of the developing countries in coping with the potential threats to international economic stability. There was no dissent from the argument that nationalised industry price subsidies should be phased out and the cost of food subsidies gradually reduced. Concern was expressed at the difficulty of making collective decisions on fundamental questions of priority on the basis of the present form of public expenditure survey; before the next survey Ministers should be able to discuss priorities in depth and the figures should be given in a way that would allow this to be done sensibly.

In further discussion, the following points were made:

a. Expenditure on roads had already been switched to a very low priority. The rate of increase of 3.2 per cent which had been quoted was a measure of increase, not in capital expenditure on roads, but of the whole roads and transport programme, and was largely attributable to the subsidies to British Rail and to local passenger transport undertakings. In Wales the construction of roads was lagging badly behind England, most of the money in 1976-77 being required for the M4, which was of crucial importance for the Principality.
b. The proposals for education meant that some expectations could not be fulfilled. There was no prospect of restoring free school milk in primary schools. In higher education it meant a target of only 640,000 students compared with the 750,000 which had been the aim of the Conservative Administration (although there was some evidence of falling demand). It meant no resources to cater for the recommendations of the Russell Report, the James Report or the Bullock Report; and no additional resources for the youth service, the libraries service or the arts or basic scientific research. The large cuts proposed were feasible partly because of reduced demographic forecasts; but some increase in capital expenditure was desirable - additional starts of £5 million for nursery education and £10 million for improvements in primary and secondary schools adding some £7-8 million to expenditure in 1975-76.

c. On expenditure on Law and Order, while capital expenditure, as had been noted, was planned to increase, hardly any of this was for the expansion or improvement of accommodation for adult offenders. Some £40 million had been taken out of the prison programme, and to go further would have serious repercussions on prison building. Much of the increase was devoted to the needs of the under 21's - the age group which showed the most disturbing increase in criminal activity.

d. The Secretary of State for the Home Department had agreed to a cut in the building programme for courts under his control; but it was for consideration whether there should not be a larger cut than agreed so far in the court building programme controlled by the Lord Chancellor.

e. Private productive investment could be stimulated in three ways - by generalised fiscal measures, through the Budget; by easing the price Code; and by direct selective support for industry. Only the third of these, which was favoured by the TUC, impinged directly on public expenditure. There were obvious difficulties in trying to correlate these three different ways of tackling the same problem. Thus, the Investment Bank which was contemplated, and the National Enterprise Board, might require some £1,500 million, but there was no way of relating that to help which could be given through Budget easements. This was a question that needed further study.
In subsequent discussion, it was pointed out that events beyond the control of Ministers might well make it necessary to look again at any general pattern of priorities agreed now. If a recession became a reality the preservation of employment might well need to assume top priority. Similarly if the world moved into a new and emergency food supply situation, it could mean that there would need to be increased expenditure on the fostering of home based agricultural production; but that would be a new situation which would have to be considered at the time. The Contingency Reserve - £300 million next year rising to £1,000 million in 1978-79 - was meant to cope with unforeseen expenditures on a modest scale, but clearly a major crisis such as a threatened breakdown in the trade and monetary system would require fundamental reconsideration. Even within the existing scheme, the prospective commitments listed in Table 4 of the Chancellor's paper should not be viewed lightly. If the Cabinet were to be stringent about public expenditure which directly or indirectly, made demands on goods and services, it must be prepared to be equally tough towards expenditure with little or no demand effect - as with the purchase of assets on nationalisation - since their implications for the public sector borrowing requirement could be very serious. It could well be that the main Opposition attack on the Government's scheme would be focused on the borrowing requirement itself. Nor was it to be assumed that the demand effects of many of these prospective payments would be negligible. In considering priorities it would not be enough to confine attention to the public sector simply because that was the area under Ministerial control, and it was necessary to work out a means of reining back inessential private expenditure so as to minimise the public sector cuts needed.

The Government would have to consider the problem of the presentation of their policies to the Party and the country. The Budget Speech would be an occasion for a comprehensive presentation of strategy, but early opportunities should be taken to reinforce it. It was suggested that there might be merit in drawing up a declaration for issue after the Cabinet's meeting at Chequers on 17 November which would set out the relationship between the world scene and the United Kingdom's own problems, and relate public expenditure policy to economic strategy generally. On the other hand it was pointed out that the Chequers' meeting was to allow a wholly free and uninhibited discussion between Ministers. Even if such a declaration was appropriate its drafting could only be put in hand subsequently.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet gave general approval to the approach proposed by the Chancellor of the Exchequer to the problems of public expenditure. The Chancellor should now consider the points made in discussion, both those of a general character and those concerned with departmental programmes; and should consult further with the Ministers concerned to decide what adjustments could be made in order to accommodate desired changes within the agreed guidelines. As far as possible he
should reach agreement with his colleagues, and then circulate a
definitive version of his paper, which could set out any unresolved points for the Cabinet to settle at a further meeting. He should note the general view that there should be an increase in the overseas aid programme, as part of the United Kingdom's approach to the world problem. Ministers had quite rightly pressed their departmental points, but he thought there had been a noteworthy willingness to accept the general economic limitations and the problems of other Ministers. The Chancellor should now take the initiative with all the Departments concerned to work out a tighter system for the control of local authority current expenditure, with particular reference to the need for monitoring that expenditure in view of the proposed increases in local authority manpower, not all of which could be going to priority programmes. On presentation, the Budget speech would relate public expenditure to the national and, to some extent, the world crisis, and would provide part of the background for the Cabinet's discussion on 17 November. This would be timely given the fact that the main forum outside Parliament for the presentation of Government policies to the Party and the Nation in the near future would be the Party Conference later in the month.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister.
3. The Cabinet had before them a memorandum by the Secretary of State for the Environment (C(74) 125) about Rate Support Grant in 1975-76.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Prime Minister had recently chaired a meeting about Rate Support Grant in 1975-76 with the Ministers immediately concerned, and the outcome of the discussion was reflected in the memorandum which he had circulated. Four main issues had to be considered. The first was the acceptable level of local government expenditure for rate support grant purposes. Local authorities had been generously treated in recent years; their expenditure had been increasing by about 8 per cent a year in real terms and the number of staff employed by about 80,000 (though about half of these were part-time). This rate of increase could not be allowed to continue, and it was proposed that, for 1975-76, expenditure should be held at its 1974-75 level, plus an allowance for inescapable commitments amounting to about 4 per cent. The local authorities were expecting measures on these lines; but the effect on services would be painful - Metropolitan bus fares would, for example, have to be increased by 30 per cent next year and fares in London by 50 per cent. The second question was the tolerable level of increase in rates. This year the original target of an average increase of 30 per cent had proved unacceptable and had subsequently had to be reduced to about 10 per cent. In his view a figure of 25 per cent was the most that could be accepted politically and from the point of view of preserving the social contract. This should be adequate to discourage local authorities from increasing expenditure, particularly bearing in mind that Metropolitan district elections would be taking place in April. Thirdly there was the question of how the grant should be distributed amongst local authorities. This was a matter on which he would be circulating proposals to the Cabinet. Finally there was the need to exercise greater control over local authority spending and, in particular, staffing. Monitoring arrangements would have to be established, and the Government would have to accept general responsibility for reductions in services and to give guidance on priorities.

THE CHANCELLOR OF THE EXCHEQUER said that he agreed broadly with what was proposed for 1975-76. It was, however, important to make clear to local authorities that this was only the first step in a continuing process and that severe restraint on expenditure would have to be exercised throughout the Public Expenditure Survey (PESC) period. The Government would have to give clear guidance on priorities and on charging policy, and to establish effective monitoring machinery. As regarded the level of rate increases, he favoured a figure of 35 per cent, which would represent an increase of only 20 per cent in the target which had originally been adopted this year. A target of 25 per cent would increase the Exchequer cost by £250 million but would only reduce the retail price index by 0.25 per cent. Moreover, the lower the average increase in
rates, the weaker would be the restraints on local authority expenditure. He agreed that there should be some increase in the grant payable to local authorities this year, but in order to discourage profligate expenditure it would be desirable not to meet the local authorities' deficits in full, still less to enable them to build up the balances which had been run down. He favoured an arbitrary figure of £250-300 million in terms of current values.

In discussion, it was argued that the public found rate increases perhaps the most objectionable of all the increased charges they were called upon to pay, and that this was a ground for keeping the increases to the minimum. It was, moreover, undesirable that the rate increase should exceed too much the likely rate of inflation; but an average increase of even 25 per cent would involve some much larger individual increases - indeed, some 5 per cent of the population would be faced with increases of 50 per cent or more. It was, however, not proposed to impose an upper limit to permissible individual increases. It also had to be borne in mind that there would be substantial increases in water and sewerage charges, which in Wales would amount to about 60 per cent on average. On the other hand, it was argued that substantial rate increases were the most, perhaps the only, effective way of controlling expenditure by local authorities, whose excessive spending during the current year it was now proposed to allow for the purpose of calculating grant. In the light of past experience it was doubtful how effective monitoring would be.

In further discussion, it was argued that within an overall manpower ceiling it was important that some increase should be allowed in the number of teachers. Without this there would be a decline in the pupil/teacher ratio and significant unemployment amongst newly qualified teachers. The Government would be obliged to indicate their intentions as to the prospective number of teachers to be employed, and it was important to avoid the implication that they were deliberately adopting policies which would produce unemployment amongst teachers who were about to complete their training.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed with the approach proposed by the Secretary of State for the Environment. The aim should therefore be to hold expenditure by local authorities in 1975-76 at its 1974-75 level, plus a 4 per cent allowance for inescapable commitments. Continuing restraints in expenditure would be necessary throughout the PESC period; and although it might not be practicable to give the local authorities targets for the years after 1975-76, the Secretary of State for the Environment, in consultation with the Chancellor of the Exchequer, should consider urgently how the continuing need for severe restraints could best be impressed on local authorities. The Government should accept general responsibility for the effects on services and should issue detailed guidance to local authorities on priorities. The total number of staff employed by local authorities should be held at its present
level and detailed monitoring arrangements should be established. Detailed arrangements for these purposes should be worked out on the lines agreed at his recent meeting with the Ministers immediately concerned. There should be flexibility within the staffing ceiling; and the Secretary of State for Education and Science was free to make clear that the Government were not planning for unemployment amongst newly qualified teachers. In view of the strength of public resentment caused by increases in rates, and the harmful implications for counterinflationary policies, the Cabinet agreed that the maximum tolerable level of average rate increase was 25 per cent, despite the increased demands which would thus be made on the Exchequer. They agreed also that some extra grant should be paid this year by way of a Rate Increase Order. The precise amount should be settled by the Secretary of State for the Environment in consultation with the Chancellor of the Exchequer, who had expressed a preference for limiting it to some £250-300 million so as to avoid any impression that the Government were condoning profligate expenditure.

The Cabinet -

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

2. Invited the Secretary of State for the Environment, in consultation with the Chancellor of the Exchequer, to proceed accordingly.

Cabinet Office

5 November 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
THURSDAY 7 NOVEMBER 1974
at 10.30 am

PRESENT
The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council
(Items 1 - 5)

The Rt Hon Lord Elwyn Jones
Lord Chancellor
(Items 1 and 2)

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services
(Items 1 - 5)

The Rt Hon Peter Shore MP
Secretary of State for Trade
(Items 1 - 5)

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department
(Items 1 - 5)

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry
(Items 1 - 5)

The Rt Hon Roy Mason MP
Secretary of State for Defence
(Items 1 - 5)

The Rt Hon William Ross MP
Secretary of State for Scotland

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

The Rt Hon Lord Shepherd
Lord Privy Seal
The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General (Item 2)

The Rt Hon Ronald King Murray QC MP
Lord Advocate (Item 2)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 3 and 5)
Mr H F T Smith (Item 3)
Mr P Benner (Item 1)
Mr J A Hamilton (Items 2, 4 and 6)
Mr E J G Smith (Item 5)
Mr R J O'Neill (Item 3)
Mr R L Baxter (Items 2, 4 and 6)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Debate on EEC Documents on Sugar</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>BILL TO AMEND THE TRADE UNION AND LABOUR RELATIONS ACT 1974</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>FOREIGN AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Uganda</td>
<td>4</td>
</tr>
<tr>
<td>4</td>
<td>THE PRICE CODE</td>
<td>4</td>
</tr>
<tr>
<td>5</td>
<td>SUGAR</td>
<td>5</td>
</tr>
<tr>
<td>6</td>
<td>PAY OF TEACHERS IN SCOTLAND</td>
<td>10</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

It was noted that there was to be a Debate on 11 November on certain European Economic Community (EEC) documents on sugar which the Select Committee on European Subordinate Legislation had recommended should be further considered by the House. A large backlog of such recommendations had now accumulated, and it was proposed to give priority to the documents on sugar because the House should have an opportunity of expressing a view in advance of the Ministerial meeting at Brussels on 18 November at which they were to be considered. It was proposed that the Debate should take place on the basis of a "take note" Motion. It was argued however that this form of Motion had attracted some criticism on previous occasions, and it therefore might be preferable, if the content of the documents made this appropriate, for the Government to put down a Motion welcoming or approving them. On the other hand it was pointed out that a Resolution was about to be tabled for the immediate appointment of a Select Committee to examine generally the handling of Debates on European secondary legislation arising from reports by the Scrutiny Committee; and it would be appropriate, pending the Select Committee's Report, to continue to take Debates on the basis of "take note" Motions. Whatever the form of the Motion, however, past experience showed the importance of advance collective consideration of the attitude to be adopted by the Government spokesman.

THE PRIME MINISTER, summing up a brief discussion, said that although a "take note" Motion would probably be right on this occasion, there was a danger that Debates on European secondary legislation would have an unsatisfactory outcome unless care had been taken to settle the Government's position in advance. In view of the sensitivity of the Debate on sugar on 11 November, the Minister of Agriculture should, as the Government spokesman, inform the Prime Minister and other Ministers concerned in advance of the line he proposed to take. In addition the Foreign and Commonwealth Secretary should ensure that there were arrangements for the necessary consideration by Ministers of the way the Government should handle other forthcoming Debates in either House, arising from reports of the Scrutiny Committee.

The Cabinet -

Took note, with approval of the Prime Minister's summing up of the discussion and invited the Minister of Agriculture, Fisheries and Food and the Foreign and Commonwealth Secretary to be guided accordingly.
2. The Cabinet considered a memorandum by the Secretary of State for Employment (C(74) 128) about the Bill to amend the Trade Union and Labour Relations Act 1974, and a minute by him to the Prime Minister, to which was attached a copy of a letter dated 6 November from the General Secretary of the Trades Union Congress (TUC).

THE SECRETARY OF STATE FOR EMPLOYMENT said that when the Opposition amendments to the Act were put through, the original intention had been to deal with them in the Employment Protection Bill. However, since it was urgently necessary to amend the legislation before a case could come before the courts, he had proposed a separate amending Bill.

He had told the TUC before the Election that when the Act was amended some safeguard must be provided for the individual against arbitrary exclusion or expulsion from union membership, but that if the TUC expressed a strong preference for a voluntary system instead of a statutory provision the Government would be ready to consider it. In his subsequent discussions with the TUC they had not raised the possibility of a voluntary alternative until his discussion the previous Monday with the Finance and General Purposes Committee. The Committee were confident that their proposal for a voluntary arrangement would be accepted by the General Council and, in the circumstances, he had no alternative but to put it to the Government. The proposal was explained in the letter from the General Secretary of the TUC which he had circulated. There was to be an independent review committee under an independent chairman with legal qualifications. After ensuring that all internal union procedures had been exhausted the review committee would discuss each case with the union and the individual concerned in an attempt to resolve the matter by agreement; failing this the review committee would make a recommendation which the union would be expected to observe. The independent review committee could be in operation by the New Year. This was a respectable proposal, which would fulfil without legal sanctions the Government's aim of protecting civil liberties. The adoption of such a procedure would force every trade union to bring its internal procedures up to the standard of the best. If the Cabinet would accept the proposal, the Bill could go forward quickly without this clause. If they rejected it, the resulting argument with the TUC would distract attention from the primary object of amending the Act.

THE PRIME MINISTER said that since the Lord Chancellor, who wished to contribute to the discussion, was obliged at that point to leave the Cabinet, it would be necessary for the Cabinet to resume discussion at their next meeting.
The Cabinet -

Agreed to resume discussion of this question at their next meeting.
3. THE FOREIGN AND COMMONWEALTH SECRETARY said that President Amin, who was angered by recent reports in the British Press that he was afraid of conspiracies against him and had been implicated in the death of one of his former wives, had informed us that the staff of our High Commission must be reduced to a total of 5 officers. In retaliation we had required that the Ugandan High Commission in London should be reduced to the same number. It was possible that President Amin, in his present mood, would take measures against British interests in Uganda and require British subjects to leave. He might, however, be restrained from going too far by a desire to avoid undue criticism from other African leaders with the consequent risk that the arrangements to hold the next summit meeting of the Organisation of African Unity in Uganda might be cancelled.

THE PRIME MINISTER, summing up a brief discussion, said that it was an offence to the Commonwealth that one of its members should follow the racialist policies and the domestic practices of which President Amin was guilty. President Amin's presence at the meeting of Heads of Government, which was to take place in April, would be an embarrassment. There was a precedent for the members of the Commonwealth telling one of their number that she was not welcome. This was not a matter in which it would be prudent for us to take a lead, for if we did so African opinion might rally against us despite the fact that many African countries deplored President Amin's behaviour. It would however be of interest to know of any indication that African members of the Commonwealth were themselves beginning to think along these lines. The Cabinet noted that contingency plans existed for supplementing the normal air services from Uganda if there were a forced exodus of British subjects.

The Cabinet -

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

4. The Cabinet discussed the Price Code. The discussion is recorded separately.
5. The Cabinet had before them memoranda by the Minister of Agriculture, Fisheries and Food (C(74) 117 and 126) on sugar.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the arrangements on supply of sugar which had been agreed at the Council of Ministers (Agriculture) of the European Economic Community (EEC) on 21 October were not ideal, but represented the best arrangements obtainable and were within the instructions given to him by the Cabinet. It would not be right to seek to reopen the agreement. The world supply situation next year was becoming more difficult, with every expectation of a world shortage of sugar, and prices were already rising very rapidly; All practical steps should now be taken to assure our supplies next year, but the fact must be faced that there could well be a shortage of sugar in this country. He wished to emphasise that the agreement reached at the Council of Ministers did not discriminate against cane sugar - indeed it would help us to obtain raw cane supplies - and he was in touch with representatives of the sugar refinery workers on this. He would have preferred to have reached a separate agreement with Australia, but it was clear that Australia would not be able to offer enough sugar to meet the short-fall in our supplies over the next nine months. Furthermore, the Australian Government had made it plain that they were interested only in a long-term agreement, and that either it would have to be concluded with the Community as a whole or, if a bilateral arrangement with the United Kingdom, it would have to receive Community endorsement. It was essential that the EEC commit itself immediately to the import of 1.4 million tons a year of sugar from the developing Commonwealth, at a price which took account of the fact that the current very high world prices would be a counter-attraction to them. The future structure of the cane refining industry in the United Kingdom required urgent examination; its problems had been before Ministers for at least 3 years, but so far without resolution.

In discussion it was argued that, although the short-term problem was particularly acute, this should not be solved to the detriment of our long-term objectives. Some of the terms of the agreement reached were a cause for anxiety on this account. The agreement to allow EEC production of beet sugar to expand from 10 million tons to 13 million tons annually could effectively prevent continuing access by overseas suppliers. This agreement should not have been reached without a matching commitment to import 1.4 million tons annually from the developing Commonwealth and an arrangement for imports from Australia being reached at the same time. We should now insist on both those arrangements; and we should be prepared to go ahead with them unilaterally if the EEC as a whole would not do so. Our cane refineries needed Australian raw sugar in addition to the 1.4 million tons to continue economic operation. The arrangements agreed at the Council of Ministers did not guarantee our supplies - their only immediate effect had been to raise the world price. Unless we received satisfaction on these matters, we should follow the precedent set by West Germany and reject the agreement which had been reached.
It was further argued that this issue touched on an area which was fundamental to the approach of the Labour Party to the question of membership of the EEC. The Commonwealth Sugar Agreement had been a most valuable instrument for furthering the interests of the Commonwealth as a whole; and it was essential that there should be no gap between its termination and the introduction of effective arrangements to import 1.4 million tons of sugar annually from the developing Commonwealth. The assurances on this given by the previous Administration had proved to be completely defective; the Government must ensure that the arrangements it made remedied those defects. Moreover, the Government had included among its renegotiation objectives, the need to preserve access for cheaper food supplies from outside the Community. Even if such supplies were not available now, periods of surplus might return and we should retain the right to take advantage of them. Australian sugar was a particular example of this principle. The Government would be faced with a considerable political problem, when presenting the results of renegotiation, if it could be said that we had been anxious to buy sugar from Australia and they had been anxious to sell it to us, but that the EEC had prevented it. The Government had never accepted arrangements which would prevent us importing Australian sugar in the future. It would be a mistake to make arrangements on sugar which prejudged our continuing membership of the EEC following renegotiation. We were in a strong position to insist on our objectives on sugar and, if necessary, to block matters which other members of the EEC wanted.

On the other hand it was pointed out that, in present circumstances, it was advantageous in relation to world supply and demand for beet sugar production in Europe to be expanded, and particularly to the national advantage for production in the United Kingdom to be increased. If world supplies at some future date went into surplus, and the EEC were party to an international sugar agreement, its production would have to be restricted. In any case the increased beet production in the United Kingdom still left room for 1.4 million tons of sugar from the developing Commonwealth. It was also argued that our traditional Commonwealth suppliers of foodstuffs had diversified into other markets, both because of the way the previous Administration had approached membership of the EEC and also because in many of those other markets higher prices were available. The clock could not be turned back in this regard. Australia in particular was seeking other markets for her primary commodities; she did not feel that we had let her down over sugar. We had not asked for continuing special access for Australian sugar in our renegotiation demands.
It was further argued that the dominant factor was our acute need for sugar next year; the arrangements agreed at the Council of Ministers were the best opportunity for obtaining our requirements. If these arrangements now disappeared because of British objections, the Government would be faced with a most difficult task in explaining to the public why we had followed a course leading to a reduction in supplies and an increase in prices. In the circumstances it would be wrong either to turn down the agreement reached or to attach unduly onerous conditions to it.

In further discussion the following points were made:

a. At the meeting of the Council of Ministers (Foreign Affairs) on 12-13 November and of the Council of Ministers (Agriculture) on 18-19 November we should seek to obtain a commitment by the EEC to the import of 1.4 million tons of sugar annually from the developing Commonwealth, on a continuing basis; at a price which was realistic in present circumstances, which undoubtedly would be above £140 a ton - perhaps appreciably above it - and with arrangements for the review of prices; and with a provision that the raw cane supplies involved would be allocated to British refineries. Our Ambassadors in the eight other member States of the EEC should be instructed straightaway to make known the degree of importance which the Government attached to this issue.

b. Whatever arrangements for sugar supplies were finally agreed we must prepare for the possibility of rationing early in 1975. There were already signs of hoarding since it was common knowledge that the price of sugar was bound to rise. Contingency planning should be put in hand.

c. The whole of the cane refining and beet processing industries needed rationalisation. The structural problems of the cane refining industry needed urgent attention. The future of the industry should be based upon a realistic estimate of raw cane sugar throughput, although this would be difficult to estimate before the outcome was known of arrangements for imports from the developing Commonwealth and Australia.

d. Further thought should be given to the possibility of a deal with Australia either through the medium of the EEC or direct. A possible variant of this might be a direct deal which would be converted into a Community arrangement if we remained within the EEC.
THE PRIME MINISTER, summing up the discussion, said that a fundamental long-term issue had to be considered against the background of an extremely difficult short-term situation. The Cabinet accepted the agreement on sugar reached at the Council of Ministers (Agriculture) on 21 October, on the following conditions:

i. That the EEC agreed to the import of 1.4 million tons of sugar annually under Protocol 22 of the Treaty of Accession, offering initially a price not less than £140 a ton.

ii. That the raw cane sugar imports would come to the United Kingdom for refining.

iii. That the EEC accepted the principle of continuing arrangements; and

iv. That the possibility of an agreement with Australia in the longer run, if one could be reached, should not be ruled out.

The Cabinet would wish to resume its discussion on the longer term position in the light of progress on these points and any further assessment of the Australian attitude. In reply to any Question in the House of Commons, he would take the line that we had every intention of getting all the Australian sugar we could, either under Community arrangements or direct. In the meantime the Secretary of State for Prices and Consumer Protection and the Minister of Agriculture, Fisheries and Food should put in hand a study of the steps required to deal with the likely shortage of sugar in the New Year and report back as soon as possible. The Secretary of State for Industry and the Minister of Agriculture, Fisheries and Food should examine urgently the question of the future structure of the cane refining industry.

The Cabinet -

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

2. Invited the Foreign and Commonwealth Secretary and the Minister of Agriculture, Fisheries and Food to proceed accordingly at the meetings of the Council of Ministers (Foreign Affairs) on 12-13 November and the Council of Ministers (Agriculture) on 18-19 November.

3. Invited the Minister of Agriculture, Fisheries and Food to put in hand at once, in close consultation with the Secretary of State for Prices and Consumer Protection, a study of the steps necessary to deal with the likely shortage of sugar.
4. Invited the Secretary of State for Industry and the Minister of Agriculture, Fisheries and Food to examine urgently the future structure of the cane refining industry.

5. Agreed to resume their discussion of the longer-term sugar position at a subsequent meeting.
6. The Cabinet considered a memorandum by the Secretary of State for Scotland (C(74) 127) about the pay of teachers in Scotland.

THE SECRETARY OF STATE FOR SCOTLAND said that he wished to impress upon his colleagues the gravity of the situation in Scotland. Just before the Election the teachers' side of the Scottish Teachers' Salaries Committee had made a claim for an interim payment of 10 per cent pending the report of the committee under Lord Houghton to examine the pay structure and levels of remuneration of non-university teachers in Great Britain. After consulting his colleagues he had persuaded the management side to turn down the claim, but he had suggested that they might indicate their willingness to make an interim payment immediately after receiving the Houghton Report. This was conveyed to the teachers but was not accepted. There were now official 3-day strikes in some areas, as well as outbursts of strike action by unofficial action groups throughout Scotland. The demand now was not for 10 per cent but for an interim payment of £300 to be made to every teacher at the end of December. There was intensive lobbying and protest marches. There was ill-feeling about the London weighting allowances that had recently been increased for teachers in London, and nationalists were asking whether or not he had the power to take decisions on teachers' salaries in Scotland. There was a danger that the militant action groups that had sprung up might take over the official unions and decline to negotiate on the recommendations of the Houghton Committee. He thought it necessary, therefore, to make arrangements for the payment in December of an interim award, after consulting Lord Houghton to make sure that the award would not cut across his recommendations. In order to clear this through the statutory procedures, it would be necessary to set in hand the arrangements before the receipt of the Houghton Report.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that any concession to Scottish teachers would have to be given to teachers in England and Wales. Teachers' pay had been increased last April and they would receive further increases under threshold agreements up to the end of November; in addition they would benefit from the recommendations of the Houghton committee, which the Government would allow to be backdated to 24 May. The Government could not concede more than this under pressure from militancy without endangering the social contract. On the other hand he saw no objection to implementing the Houghton committee recommendations in two stages: for instance by giving first an immediate interim award in the form of a lump sum or a percentage, which would be followed by the negotiation of long-term structural changes. But the immediate payment could not be made in December. The process of clearance through the Burnham Committee and the Scottish Teachers' Salaries Committee, the making of the Order, the
notification to education authorities, and the programming of local authority computers, would make it impossible for the payments to go through before the end of January. All this would apply to Scotland in the same way as to England and Wales.

THE PRIME MINISTER, summing up a short discussion, said that the Cabinet agreed that it would be desirable, if possible, to make an interim payment immediately after the receipt of the Houghton Report at the end of December in the same way as an immediate payment had been made to nurses on the receipt of the Halsbury Report. It might be possible to achieve this by setting in motion the statutory procedures before the publication of the Report, though it would be necessary to make sure by informal consultation with Lord Houghton that the payments would not prove incompatible with his Committee's recommendations. Any such arrangement would have to apply to England and Wales as well as Scotland. The Secretary of State for Scotland should therefore consult further with the Secretary of State for Education and Science, and also with the Secretary of State for Employment and report back to the Cabinet at the pre-Budget meeting on Monday 11 November.

The Cabinet -

Invited the Secretary of State for Education and Science and the Secretary of State for Scotland to consider, in consultation with the Secretary of State for Employment, whether arrangements could be made for an interim payment to teachers throughout Great Britain at the end of December, and to report back to the Cabinet on 11 November.

Cabinet Office

7 November 1974
THE PRIME MINISTER said that because of their connection with the forthcoming Budget the proposals for the review of the Price Code must be treated as Budget secrets.

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION said that after discussion in Ministerial Committees decisions had been reached on the proposals to be included in the consultative document on the review of the Price Code, though some of the figures had yet to be finally determined. The main proposals fell into 3 parts. In the first place the productivity deduction was now having a more adverse effect on profits than when it was first introduced: to give the same effect now it would be necessary to reduce the deduction from 50 per cent to 12½ per cent. She proposed to reduce it to about 20 per cent, with tapering arrangements by which the figure would be increased up to 35 per cent for capital-intensive firms and reduced down to 10 per cent for labour-intensive firms. The productivity deduction would still make an inroad on profits, but to offset this her second main proposal was to introduce a new investment relief. The investment relief was designed to be as selective and accountable as was possible with the existing economic machinery; it might be possible to be more selective after the introduction of Planning Agreements. The relief would be related to plans for future investment; it would be given at a rate of 15 or 20 per cent; and would cover investment in plant, machinery and industrial buildings, but not vehicles, shops or offices. Firms whose investment fell short of the submitted programme would be denied further price increases until the deficit was made good. She was satisfied that this was the most water-tight arrangement that could be made in present circumstances. In the third place she proposed certain adjustments to the safeguard for manufacturers and distributors. The present safeguard for manufacturers against erosion of profits was not used except by firms that were exceptionally well advised; in order to make the safeguard more accessible but at the same time more rigorous, she proposed to amend it to deal with erosion of profits
on a product basis but to reduce the level of the safeguard from 90 per cent of net profit margins to 65 or 70 per cent. The safeguard for distributors' net profit margins was at 75 per cent but, for technical reasons concerned with gross margin limits, two thirds of distributing firms were already below that level, being unable to make use of the safeguard. She agreed with the Secretary of State for Trade and the Minister of Agriculture that the special problems of distributing firms needed further examination; she did not propose to reverse the 10 per cent cut in gross margins but would like to see whether something could be done to make the net-profit margin safeguard more available. Her proposals for nationalised industries would bring them more into line with the private sector, particularly as regards the minimum safeguard for return on capital. This change would leave room for price increases, and the responsible Ministers would have to decide how far to allow the prices to rise within the new limits. The total effect of her proposals, assuming some under-claiming of investment relief, was expected to be to increase the Retail Price Index (RPI) by about 1 per cent.

In discussion it was noted that if the effect of the proposals did not exceed an addition of 1 per cent to the RPI, the Trades Union Congress had stated that they would accept it, albeit reluctantly.

It was argued that there was a good case for easing the application of the Code to distributors, since even a highly efficient firm like Marks and Spencer had reported lower profits on a higher turnover. Distributors would benefit little from the reduction in the productivity deduction; nor would they benefit much from the investment relief if it excluded shops and vehicles; there was therefore a strong case for adjusting the safeguard on their net profit margins.

In further discussion it was argued that it was doubtful whether the investment relief would in fact affect investment, which would depend on market prospects; and that it was impossible in any case for the Government to operate selectively in this field, since it lacked the necessary information. It was suggested therefore that the investment relief should be linked to a statutory provision by which firms would be obliged to disclose to the Government and to the trades unions the facts on which their applications were based. In this way the cases could be considered more selectively and the procedures under the Price Code could be adapted in the direction required for the introduction of Planning Agreements. Against this it was argued that it was necessary to bring more cash at once into the company sector if mass unemployment was to be avoided and that the means of doing this through investment relief were as selective as they could be in present circumstances. There might later be a case for
requiring more disclosure of information, but that would be a matter for separate legislation. The present Act forbade the Price Commission to disclose the information given to it. Moreover the arrangements for Planning Agreements could not wholly supersede the Price Code since only some firms would be covered; the Cabinet would have to consider later how the Price Code should apply to other firms. Meanwhile the Confederation of British Industry had been asked to advise its member firms to give more information to the trades unions.

The Cabinet -

Took note of the statement by the Secretary of State for Prices and Consumer Protection.

Cabinet Office

8 November 1974
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
MONDAY 11 NOVEMBER 1974
at 10.30 am

PRESENT
The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

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

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer (Item 1)

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster
SECRET

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General (Item 2)

The Rt Hon Ronald King Murray QC MP
Lord Advocate (Item 2)

The Rt Hon Edmund Dell MP
Paymaster General (Item 2)

SECRETARIAT

Sir John Hunt
Mr J A Hamilton (Item 2)
Mr R L Baxter (Item 2)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>THE BUDGET</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>BILL TO AMEND THE TRADE UNION AND LABOUR RELATIONS ACT 1974</td>
<td>2</td>
</tr>
</tbody>
</table>
THE BUDGET

1. THE CHANCELLOR OF THE EXCHEQUER communicated to the Cabinet particulars of the proposals in the forthcoming Budget.

In accordance with precedent, details are not recorded in the Cabinet Conclusions.
2. The Cabinet resumed consideration of a memorandum by the Secretary of State for Employment (C(74) 128) about the Bill to amend the Trade Union and Labour Relations Act 1974, and of a minute from him to the Prime Minister to which was attached a copy of a letter dated 6 November from the General Secretary of the Trades Union Congress (TUC).

THE SECRETARY OF STATE FOR EMPLOYMENT said that the statement that he had made at the last meeting could be summarised as follows. The TUC had put forward a proposal which was a real advance on the situation that existed before 1971; if it were accepted the TUC would co-operate willingly with the Government in setting up voluntary arrangements and each union would have an incentive to bring its internal practices up to the standard of the best. If on the other hand the Government were to try to force them to accept the statutory alternative in spite of their dislike of it, they might refuse to collaborate in working the procedure, and the atmosphere between the Government and the TUC would be soured.

THE LORD CHANCELLOR said that the original proposals, to which Ministers had agreed, had been intended to provide a statutory safeguard not only for those who were dismissed from their employment but also for those who were prevented from obtaining employment because of their unreasonable exclusion or expulsion from trade unions in a closed-shop situation. Because of TUC objections, the safeguard had been restricted to cover only those who were dismissed. The proposal now was to abandon even this safeguard. This was a retreat from the principle set out in the report of the Donovan Commission, which had argued that, because of the connection between trades union membership and livelihood in a closed-shop situation, members of trades unions who complained of unjust treatment should in the last resort have a right of complaint and a right to compensation if not reinstated in their jobs. The voluntary arrangements proposed by the TUC provided that in the last resort the review committee would make a recommendation upon which the General Council would expect a trade union to act. There would be no power to award compensation and no power to enforce compliance. The individual would retain the power to appeal to the High Court, but only on grounds of common law which were vaguely defined and probably would not give complete protection. The concept of natural justice, which underlay the operation of the common law, would apply chiefly to cases of wrongful action under contract, which could hardly cover exclusion from a union; what was needed was a safeguard based upon a broader conception of what was fair or unfair. The Donovan proposal was expressly designed to bring trades unions into line with the professions. For instance doctors and dentists had a right of appeal to the Judicial Committee of the Privy Council;
solicitors could appeal to the High Court, and barristers to the Judges. If the Government retreated from this principle in the face of trades union pressure, its action would be difficult to explain in Parliament and its credibility would come into question.

THE HOME SECRETARY said that a threat to deprive a man of his livelihood involved a fundamental question of human rights. The Government could not justify reliance on voluntary procedures to deal with these cases any more than with cases of discrimination on grounds of sex or race. When Ministers had discussed the proposed legislation on 28 October the suggestion that no tribunal was needed and that full reliance might be placed on the TUC had received no support. Many Ministers had wished to go further and apply the statutory safeguards even outside the closed-shop situation. An early proposal that two members of the statutory tribunal should be nominated by the TUC had been changed in favour of nomination by the Secretary of State. If the Government gave up these safeguards merely because the TUC disliked them its conduct would not only seem wrong; it would be wrong.

In discussion it was argued that in many other fields the Government had favoured the case for independent outside checks: for instance in enquiries on the conduct of the police; in appeals against the Law Society; in cases of race discrimination. It would be illogical to move in the other direction in cases involving trades unions. It was doubtful whether the TUC proposals would cover fully all cases involving trades unions that were not affiliated to the TUC, or trades unions that did not accept the TUC procedures, or individuals who did not come under trades union rules because they had not joined a union or had been expelled from it, or cases where there was no closed shop. Moreover the TUC proposals covered only cases of dismissal, not of refusal of employment. The TUC proposals would not, therefore, rule out the possibility of conflict with the Courts. Moreover it was likely that the Courts in these circumstances would extend their common-law powers. So it would be in the interests of the trades unions themselves to interpose a statutory appeal body between themselves and the Courts. Such a body could co-exist with their own procedures. One important case that illustrated the dangers was the behaviour of the National Union of Journalists (NUJ). This union was moving towards a closed shop position, and had already decided that all editors must be full members instead of associate members as they had been hitherto. It was easy to see how this could impair editorial freedom. The NUJ was not close to the TUC and had probably not been in mind when the TUC proposals were formulated. In order to cover this and similar cases it was necessary for the TUC to have a power to require a trades union to obey a ruling of the review committee. It would also be necessary for the review committee to be more independent than the TUC proposed; it was hardly satisfactory that the TUC themselves should
appoint both the chairman and the members of the committee. The case of the NUJ also illustrated how crucial it was that the appeal body should have the power of reinstatement; financial compensation would be worth far less. Six years had passed since the Donovan Committee reported and the TUC had shown no sense of urgency in acting on its recommendations. Many people expected the Government to take action, and a failure to do so would be seen as a surrender to TUC pressure.

On the other hand it was argued that there was no reason to introduce the legislation at this stage. The Secretary of State for Employment had promised that he would be willing to consider any voluntary alternative put forward by the TUC; he would be in a difficult position if the resulting proposal was dismissed by the Cabinet. The TUC proposal should be given a trial. The composition of the proposed review committee was similar to that recommended by Donovan; and the trades unions would have an incentive to make it work and to bring their internal procedures up to standard. The public was less hostile to the trades unions than in 1969 and expected to see them collaborating in the operation of the social contract. Not many appeals would in fact arise; and unsatisfied appellants could still make use of their common-law right of appeal to the High Court. If the voluntary system proved unsatisfactory the Government would still have the power to legislate; but if the Government were obliged to withdraw legislation in the face of non-co-operation by the unions its weakness would be manifest.

In further discussion it was argued that it would be impossible to reach a decision on the questions raised in discussion before the publication of the Bill to amend the Trade Union and Labour Relations Act; it would be better to hold over this Clause until the introduction of the Employment Protection Bill in 1975. On the other hand it was argued that the proposed amending Bill was needed urgently to remove the danger of a case arising which could bring the trades unions into conflict with the Courts. This danger would arise particularly if Section 5 were the only part of the 1974 Act to be left unrepealed. Moreover the omission of this subject from the Bill would excite comment from the Opposition and the Press, and if the Government then inserted the Clause after discussion with the TUC they would be said to have done so under pressure from the Opposition.

THE PRIME MINISTER, summing up the discussion, said that, although important objections had been expressed, the majority in the Cabinet were willing to accept the TUC proposals provided that two conditions were satisfied. The first condition was that all trades unions would be required to observe the recommendations of the review committee, in the same way as the Bridlington and Croydon agreements were mandatory for all unions. The second
condition was that the chairman of the review committee should be appointed by the TUC after consultation with the Lord Chancellor and in agreement with the Conciliation and Arbitration Service. It would also be desirable to enable the review committee to recommend compensation as an alternative to reinstatement in a union; but this was not a sticking point, for reinstatement was more important. The Secretary of State for Employment should explain these conditions to the TUC and should report back to him; he would decide in the light of the TUC's response and the views expressed in Cabinet whether it would be necessary to bring the matter to the Cabinet again. Meanwhile the amending Bill should not be published; it was to be hoped that the delay in publication would strengthen the hand of the Secretary of State for Employment in his discussion with the TUC.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Employment to speak accordingly to the Trades Union Congress and to report back to the Prime Minister.

Cabinet Office

11 November 1974
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 14 NOVEMBER 1974
at 11.00 am

PRESENT
The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council (Items 1-3)

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland
The Rt Hon Fred Peart MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General

The Rt Hon Ronald King Murray QC MP
Lord Advocate (Item 3)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 2)
Mr H F T Smith (Items 1 and 2)
Mr P Benner (Item 1)
Mr J A Hamilton (Items 3 and 4)
Mr E J G Smith (Item 2)
Mr R L Baxter (Items 3 and 4)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>George Kent Limited</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Channel Tunnel Bill</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>FOREIGN AFFAIRS</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Sugar</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Beef</td>
<td>3</td>
</tr>
<tr>
<td>3.</td>
<td>BILL TO AMEND THE TRADE UNION AND LABOUR RELATIONS ACT 1974</td>
<td>4</td>
</tr>
<tr>
<td>4.</td>
<td>PAY OF TEACHERS IN SCOTLAND</td>
<td>3</td>
</tr>
</tbody>
</table>
PARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

It was reported that there was some doubt whether an Affirmative Resolution would be needed in respect of the financial help which it had been agreed should be given to George Kent Limited (GK) and to Scientific and Medical Instruments Limited (SMI). There were strong prima facie grounds for supposing that a Resolution would be needed, bearing in mind that the Government’s total commitment was liable to exceed £5 million (the upper limit of help which could be given under Section 8 of the Industry Act 1972 without an Affirmative Resolution) and that since SMI was a wholly owned subsidiary of GK it was doubtful whether the firms could properly be regarded as two separate enterprises. It was however noted that the Secretary of State for Industry would be investigating the matter further very urgently; and the Lord President of the Council should be informed of the conclusions he reached.

The Cabinet were informed that difficulties had arisen in the handling of the Channel Tunnel Bill following the substantial vote against the procedural Motion which had been adopted by the House of Commons on 11 November. It was desirable that the Bill should now be reintroduced as rapidly as possible; but some early reassurance was desirable for Government supporters who had voted against the Motion. Such reassurances might take the form of a statement that although for procedural reasons the Bill must be proceeded with, any decision whether or not to go ahead with the Tunnel itself would be postponed until full account could be taken of the report of the Group under the chairmanship of Sir Alec Cairncross, which was expected in the spring. The right course would therefore be for the Bill to be reintroduced as soon as possible and for it to be made known that an early policy statement would be made by the Secretary of State for the Environment, who should as soon as possible circulate for consideration by the Cabinet a memorandum containing proposals as to the content of such a statement.
2. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that at the Council of Ministers (Foreign Affairs) of the European Economic Community (EEC) on 12 November the Foreign and Commonwealth Secretary had succeeded in persuading the Community to commit itself for the first time to access on a continuing basis of 1.4 million tons of cane sugar annually from the developing Commonwealth countries. Some aspects of the arrangement still needed to be decided - especially the price which should be offered for this sugar; this was likely to be a difficult issue, and he was circulating to the Ministers concerned a note on how he intended to handle it. These further aspects would be pursued in the Council of Ministers (Agriculture) the following week.

In discussion it was agreed that the EEC commitment to give access to 1.4 million tons annually on a continuing basis represented the achievement of a major renegotiation objective, though the pricing provisions would require careful handling. There had been no discussion at the Council of Ministers (Foreign Affairs) on the import of Australian sugar. It had been reported that very little Australian sugar was available before the autumn of 1975, given the large amounts reserved for Japan. However, it was possible that the Australian agreement with Japan might break down, and we should keep open the possibility of importing sugar from Australia, if available, to help meet the severe shortage we were facing in the short term. As to the longer term, the Government was not committed to obtaining long-term access for Australian sugar as one of its specific renegotiation objectives. It would be reasonable to consider on its economic and commercial merits any proposal for a long-term contract to import Australian sugar, taking into account whether or not the expansion of home-produced beet sugar would be more to our advantage.

It was pointed out that no matter what arrangements were made for the import of sugar in the current discussions in the Council of Ministers, the United Kingdom faced an acute shortage of sugar for the next nine months. The Minister of Agriculture, Fisheries and Food should have this in mind in seeking to get the best price he could in the Council of Ministers (Agriculture) next week. In addition, the Cabinet should, as agreed earlier, review the handling of the future sugar situation as soon as agreement had been reached in the further Community discussions.

THE PRIME MINISTER, summing up a brief discussion, said that the Foreign and Commonwealth Secretary was to be congratulated on achieving the commitment by the EEC to an offer to import on a continuing basis 1.4 million tons annually of cane sugar. This commitment would make good a major defect in the terms of EEC accession negotiated by the previous Administration. The continuing
basis of the arrangement would be most helpful to the developing Commonwealth countries if the world sugar situation were reversed. In the present situation of acute shortage we should not let slip any opportunities of securing Australian sugar; but any arrangements for importing Australian sugar in the longer term would need to be judged on their merits and to take account of the factor of beet production at home.

The Cabinet -

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

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that at the Council of Ministers (Agriculture) on 18 and 19 November he would be presenting proposals for changes in our beef marketing arrangements designed to overcome the critical situation facing the British livestock industry. He had circulated a memorandum on his proposals to the Ministerial Committee on European Questions (EQ).

THE PRIME MINISTER said that the Minister of Agriculture, Fisheries and Food's proposals amounted principally to the restoration in effect of a deficiency payment system. His proposals should alleviate the present situation - a view accepted by the National Farmers Union. If any parts of the Minister of Agriculture, Fisheries and Food's proposals caused difficulties for other Ministers concerned, the matter should be resolved as quickly as possible within EQ.

The Cabinet -

2. Took note.
3. The Cabinet had before them a copy of a letter dated 13 November from the General Secretary of the Trades Union Congress (TUC) to the Secretary of State for Employment,

THE SECRETARY OF STATE FOR EMPLOYMENT said that he had spoken to the General Secretary of the TUC on the lines that the Cabinet had agreed at their last meeting, and the revised letter from him which they had before them embodied the latest TUC proposal. He hoped that the Cabinet would give a clear decision in favour of this proposal instead of a statutory provision. It represented a big step forwards in the recognition by trade unions of their responsibilities; and its adoption would do much to reduce injustice. For instance it could be used to deal with the case of the National Union of Journalists (NUJ) which had been raised at the last meeting. The General Secretary's letter did not completely meet the conditions laid down by the Cabinet at their last meeting, but the differences were small. The TUC were now proposing to appoint the Chairman of their review committee after consultation with the Secretary of State for Employment and the Chairman of the Conciliation and Arbitration Service (CAS); the letter now said that there would be "a clear responsibility" on the unions to act on the recommendations of the review committee; this did not go as far as the Cabinet had wanted in asking for the same sanction as applied to the Bridlington agreement: but the General Secretary, Mr Murray, had said that he would not put such a proposal to the General Council of the TUC because he would have no hope of their adopting it. Mr Murray was working for a fair and sensible outcome and the Cabinet must respect his judgment.

On merits, then, he believed that the TUC proposals were defensible and carried out the spirit of the Cabinet's requirements. In addition, the Cabinet must take account of the totality of their relationship with the TUC. The TUC were hypersensitive on the subject of the Industrial Relations Act. Its repeal was their first priority. If the Government spurned their proposal, it would have to put through a statutory provision against their opposition and the TUC might refuse to co-operate in working the system. It would be foolish for the Government to spoil its relationship with the TUC, when their entire economic policy depended on TUC co-operation, of which the welcome support that they had given to the Budget was only the most recent example. He proposed, therefore, that the Government should encourage Mr Murray to put the revised proposal to the TUC General Council at their meeting on 20 November. He would delay until then the publication of the Bill to amend the Trade Union and Labour Relations Act. If the General Council accepted Mr Murray's proposal, the omission of any statutory safeguard from the Government Bill would be easily defensible in the House of Commons.
THE LORD CHANCELLOR said that the two conditions on which the majority of the Cabinet had decided to accept the TUC proposals had not been fully met. It would have been better for the Chairman of the review committee to be selected after consultation with the Lord Chancellor than with the Secretary of State for Employment, since the Lord Chancellor was in a better position to know the qualified candidates for the post; but it could be arranged that the Secretary of State for Employment would in practice consult the Lord Chancellor. As regards enforcement the language of the revised proposal was an improvement, but it still placed no mandatory duty on the trades unions to observe the recommendations of the review committee. Rule 13 of the TUC constitution, which gave it the power to give directions to affiliated unions to desist from certain practices on pain of suspension or expulsion, would not apply to the recommendations of the review committee. The Cabinet faced a grave political decision and he was still not happy about the terms of the TUC proposal.

THE HOME SECRETARY said that at their last meeting he had strongly expressed a dissenting view. He was if anything more unhappy than before about the attitude of the TUC. Mr Murray's letter showed that the TUC did not believe in the need for a safeguard and were only adopting it to avert the threat of statutory machinery: their proposal met neither of the Cabinet's conditions. The support of the TUC for the Budget was welcome but had nothing to do with this question of individual rights: if the Cabinet accepted the latest proposal it would have embarked on a profoundly dangerous course.

In discussion it was argued that the recent action of the NUJ in blacking an article by a non-member in a provincial newspaper was a demonstration of the threat to the freedom of the Press that had been mentioned at the last meeting. There had been cases of intimidation of individuals by both left-wing and right-wing unions. Both must be stopped. Workers who were less articulate than journalists might be more in need of protection. Unless the arrangements were supported by similar sanctions to the Bridlington agreement a trade union could disregard the recommendation of the review committee. The House of Commons would be entitled to an explanation of this point. Important though it was for the Government to remain on good terms with the TUC, that should not imply giving the TUC a veto over Government measures. The Cabinet should have no need to negotiate: it should consult interested parties and take its decisions on merits.

On the other hand it was argued that the case of the NUJ was not typical: the union was a maverick and the question of Press freedom was broader than the question of individual rights that arose in other cases. It might be possible to adapt the TUC arrangement to deal with this case by ensuring that the one member of the review committee...
committee had experience of journalism; but it would probably be better to set in hand a special inquiry or to remit the question to the Royal Commission on the Press which was already considering the parallel question of interference by newspaper proprietors. Setting apart the case of the NUJ, it was argued that the TUC proposals were well conceived and were likely to produce fair results. Although the proposals for sanctions fell short of the Bridlington agreement, they went further than the Croydon agreement, which had also been mentioned at the last meeting of the Cabinet. In practice no trade union would be likely to disregard a recommendation of the review committee. The TUC now had more powers over its membership than it had had five years ago; it was learning how to make use of legal advice; the present General Secretary exerted more authority than his predecessors and had shown his capacity to influence trades unions even where his powers were small. Moreover in certain respects the TUC proposals offered more than the Government had asked. They provided for the Secretary of State for Employment and the Chairman of the CAS to be consulted not only about the Chairman of the review committee but about its two members. They gave the review committee itself a conciliatory role. They provided for individuals to be made aware of their rights of appeal. To proceed, on the other hand, by legislation would not change attitudes on the shop floor. Enforcement would prove impossible. No statutory provision, for instance, could stop the action that had been taken by the NUJ. The support of the TUC leaders for Government policies was difficult for them to give and was of crucial importance for the Government. When they asked for Government agreement on a matter like this their wishes should be considered carefully even if they did not accord completely with the Cabinet's own preferences. If relations with the trades unions were to break down it would be difficult to produce any alternative line of policy that could be made to work.

In further discussion it was suggested that, where the TUC had proposed to appoint the Chairman and members of the review committee "after consultation with the Secretary of State for Employment", it would create a better impression if the appointments were to be made "in consultation with". This was a purely presentational point, since there was no legal difference between the two phrases.

THE PRIME MINISTER, summing up the discussion, said that the majority of the Cabinet agreed that the TUC proposals, as revised, offered a satisfactory alternative to a legislative safeguard. In practical British terms the system could be made to work. The Cabinet agreed, therefore, that the Secretary of State for Employment should encourage the General Secretary of the TUC to put his proposal to the General Council for discussion at their
meeting on 20 November. Until that discussion the Government Bill to amend the Trade Union and Labour Relations Act should not be published; and if the General Council did not accept the proposal, as expressed in the General Secretary's letter of 13 November, the question should be brought back to the Cabinet. If the proposal were accepted, the Government Bill should be published without provision for a statutory safeguard, but the Secretary of State for Employment should explain in introducing the Bill that the Government would retain the possibility of introducing legislation if the voluntary system did not work satisfactorily. Mr Murray's letter was not very suitable for publication, and it would be preferable for the TUC to make their own arrangements for publicising their proposal after the meeting of the General Council. The question of the conduct of the NUJ should be taken separately; as a first step the Secretaries of State for Employment and for Trade should consider, in the light of the points made in the Cabinet discussion, whether the question should be referred to the Royal Commission on the Press or dealt with in some other way.

The Cabinet -

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

2. Invited the Secretary of State for Employment to speak accordingly to the General Secretary of the Trades Union Congress.

3. Invited the Secretaries of State for Employment and for Trade to consider what action to take on the threat to Press freedom posed by the National Union of Journalists and to report back to the Cabinet.
4. THE SECRETARY OF STATE FOR SCOTLAND said that the Cabinet had agreed on 7 November that it would be desirable, if possible, to make an interim payment to teachers immediately after the receipt of the Houghton Report at the end of December. The Secretary of State for Education and Science and he had seen Lord Houghton afterwards, and Lord Houghton had been most helpful: he had promised to try at once to obtain his Committee's agreement in principle to an interim payment, and to put forward a recommendation on the amount of the payment by the end of November. He had just received a message that the Committee, which was meeting at that moment, would send a letter enabling a payment "specified by the Committee" to be made in December. He was not quite sure what this meant, but he thought that it would certainly be best if the Committee would specify the amount of the interim payment that they were to recommend. He proposed to arrange an announcement through a written Parliamentary Question to be answered the following day. The situation in the Scottish schools was still bad: the Educational Institute of Scotland was threatening further action. Since he would be blamed personally for anything that went wrong, it would be helpful if other Ministers would consult him before commenting publicly.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he agreed with the Secretary of State for Scotland. Under these proposals the Houghton Committee recommendations would be implemented in two stages: first a lump sum and then the more complex negotiations. A meeting of the Burnham Committee the previous day gave hopes of a reasonable outcome for England and Wales, and if the management side in the Burnham Committee were right in thinking that it would not be possible to make the interim payment in December he thought that the teachers in England and Wales would be willing to accept payment in January.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the Northern Ireland Office should be kept in touch, in view of the repercussions in Northern Ireland.

In discussion it was suggested that the experience of the Department of Health and Social Security in making the interim payment to nurses on the publication of the Halsbury Report would be of great assistance in drawing up the timetable for processing the interim payments for teachers.

The Cabinet -

Took note.

Cabinet Office

14 November 1974
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
WEDNESDAY 20 NOVEMBER 1974
at 10.00 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales
SECRET

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government

SECRETARIAT

Sir John Hunt
Mr H F T Smith
Mr J Roberts

SUBJECT

DEFENCE REVIEW
The Cabinet resumed their discussion of the Defence Review. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

20 November 1974
THE PRIME MINISTER recalled that the Cabinet had agreed that confidential bilateral exchanges should take place with the Americans and Germans on the basis of the proposals set out in his memorandum (C(74) 116). These consultations had now taken place and the Cabinet would wish to have an account of them. They would also wish to discuss the economic and employment implications of the Defence Review proposals in the light of the memorandum by the Central Policy Review Staff (C(74) 132) and to discuss the policy on the strategic nuclear deterrent.

THE PRIME MINISTER said that a small team led by the Secretary of the Cabinet had visited Washington on 12 November and Bonn on 13 November. In Washington they had had discussions with the United States Secretary of State (Dr Kissinger) and the Secretary of Defense (Dr Schlesinger) and with senior representatives of the White House, State Department and Department of Defense. The discussions were very friendly and the Americans had shown understanding of our problems. But they were concerned about the international situation and many of our proposals were clearly most unwelcome to them. As regards our contribution to the North Atlantic Treaty Organisation (NATO), the Americans were worried lest our reductions might encourage other NATO countries to make unilateral defence cuts which would in turn increase Congressional pressure for reductions in United States forces in Europe. They did not contest our view that the reductions we proposed probably stopped just short of starting such a process but they stressed that any further reductions on our part would cause them very serious concern. They were also concerned that our proposals would effectively mean the end of our ability to intervene militarily outside the NATO area. Dr Kissinger was worried about the position in the Mediterranean and was emphatic that we should retain the Sovereign Base Areas (SBAs) in Cyprus. He did not believe that the total
withdrawal of our forces would help to secure a satisfactory political settlement in the island and considered that it would be interpreted by the Russians as an indication that the Western powers were increasingly leaving the Eastern Mediterranean to them. He would be less concerned at the prospect of a reduction in the size of our forces in Cyprus, provided we maintained our presence there. Both Dr Kissinger and Dr Schlesinger viewed the situation in the Indian Ocean with concern. They were emphatic that our agreement to their proposals for an extension of the existing facilities in Diego Garcia was essential to them, particularly in the light of our proposals for withdrawing our forces from the area. In Bonn, discussions had been held with Herr Leber, the Federal German Minister of Defence, and senior representatives of the Federal Chancellory and Ministry of Defence. These discussions were primarily concerned with our proposals for the NATO area where the Germans were glad that we proposed to maintain our land and air forces in the Central Region. They also attached great importance to our intention to continue with the programme for the Multi-Role Combat Aircraft. They regretted the proposed reduction of our presence in the Mediterranean and showed some concern about the possible effect on the Danes of our reduced capability on the Northern Flank. Since the visit to Washington he had received a personal message from President Ford. It was apparent that further reflection had increased American concern, but it was his judgment that the Americans would not make serious difficulties for us in the formal consultations in NATO provided that we could meet their wishes over Diego Garcia and Cyprus. He was clear, however, that the reductions we proposed represented the limit of what the Americans would regard as tolerable.

In discussion it was suggested that agreement to the American proposals for Diego Garcia would be badly received by the Indian Government who had, in the past, advocated an Indian Ocean Peace Zone, and by other of our friends in the area. On the other hand, in the light of the extensive withdrawals which we proposed to make ourselves and the continuing presence of the Soviet Navy in the area, we should be fully justified in agreeing to the modest extension of facilities at Diego Garcia which the Americans wished to carry out at their own expense, and which we would also be able to use. The use of the facilities by the Americans other than for routine purposes would be a matter for joint decision by the two Governments. The Americans had, moreover, agreed to pursue consultations with us with the aim of developing realistic progress towards arms limitation in the Indian Ocean. But it was unrealistic to expect to achieve early international agreement on measures for arms limitation and in the meanwhile it would be right to accede to the American request to which they attached great importance.
In discussion of the memorandum by the Central Policy Review Staff (C(74) 132), it was noted that the employment implications of the proposed reductions in the defence industries should, in general, be manageable, though there would be problems for particular firms and particular areas. Arms exports might take up some of the capacity released by the reduced requirements of our own Services. It was important that there should be consultations with both sides of industry about the employment implications of the Defence Review in parallel with the international consultations with our allies; this point should be brought out in the proposed Parliamentary statement. Potentially the most serious employment problem would be at Yarrows on Clyde side if there were a major reduction in the frigate programme. Decisions could not yet be taken on this question but it was important that the situation should be clarified as soon as possible.

THE PRIME MINISTER said that if we were to retain the strategic nuclear force it must be a credible deterrent. The improvements necessary to ensure the continuing credibility of the present force were relatively cheap; they would not involve either a new generation of missiles or the introduction of Multiple Independently Targeted Re-entry Vehicles. The essential question was whether to retain the Polaris force or to reverse the policy followed in the past and abandon it. The Defence and Overseas Policy Committee had unanimously concluded that it should be retained. For our European NATO allies it represented an insurance against a breakdown in the credibility of the United States Strategic Nuclear Guarantee. If we abandoned our deterrent France would be the only country in Europe with a strategic nuclear capability and this was not committed to NATO. Such a situation would be particularly disquieting to other members of NATO and especially to the Germans. In normal times, our possession of the nuclear deterrent gave us a unique entree to United States thinking and the possibility of influencing this not only on nuclear matters, including strategic arms limitation, but over a very wide politico/strategic field. In times of tension, it provided us with a unique opportunity to influence events both in Washington and Moscow and counsel moderation. For this country it provided, in the worst case, the best protection against the risk of nuclear attack or nuclear blackmail. From his own knowledge of the Soviet leadership he was satisfied that there was no question that our relations with the Soviet Union would be improved if we were not a strategic nuclear power; on the contrary, he believed that the Soviet Union valued the contribution which our possession of the nuclear deterrent enabled us to make to discussion in the arms limitation field. During the recent bilateral discussions with the Americans Dr Kissinger and Dr Schlesinger had reaffirmed the importance they attached to our strategic nuclear contribution. Dr Kissinger had emphasised that the existence of our Polaris force did not in any way hamper him in the Strategic Arms Limitation Talks with the Soviet Union; on the contrary, it was positively helpful.
In the course of a full discussion it was argued that, in addition to the strong views which some members of the Government Party held against the possession by us of nuclear weapons, a decision to improve the deterrent carried an implied intention to keep up with further developments in anti-missile technology and to replace the submarines in due course. It was questionable whether possession of the deterrent gave us a greater influence than we would enjoy if we abandoned it. It was also argued, however, that our influence as a nuclear power was real and would be no less important in the future than it had proved to be in the past. If we were to abandon the deterrent this would have a serious effect on our European NATO allies and would revive demands for a European nuclear force. Even with the proposed improvements, the cost of the Polaris force was less than 2 per cent of the defence budget; this was a small price to pay for the advantages it conferred.

(At this point the Prime Minister had to leave the meeting and the Lord President of the Council took the chair.)

In further discussion it was argued that the prospective spread of a nuclear capability among the smaller powers was a particularly disturbing development. We should seek to work for international agreement to reverse this trend and should be prepared to consider giving up our nuclear deterrent if by this means we could secure an effective agreement at a later stage, though nothing could be said about this intention now.

THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said that the Cabinet had held a valuable and wide-ranging discussion of the international and domestic implications of the Defence Review. Their discussion of the nuclear deterrent in particular had been conducted with moderation and understanding of different shades of opinion. Agreement had now been reached on the outstanding points. It was clear that we would encounter very considerable American opposition to withdrawal from the SBAs in Cyprus and the Foreign and Commonwealth Secretary would be considering the terms of a reply to be sent to Dr Kissinger. Apart from this the proposals summarised in C(74) 116 would form the basis of the consultations with our allies and with both sides of industry. The next step would be to settle the statement to be made in Parliament on 3 December; this would be considered by the Cabinet on 25 November.

The Cabinet -

Took note, with approval, of the Lord President of the Council's summing up of their discussion.

Cabinet Office

21 November 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet

held at 10 Downing Street on

THURSDAY 21 NOVEMBER 1974

at 10.30 am

PRESENT

The Rt Hon Edward Short MP
Lord President of the Council
(In the Chair)

The Rt Hon James Callaghan MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services
(Items 1 and 2)

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and
Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland
The Rt Hon Fred Peart MP
Minister of Agriculture, Fisheries, and Food (Items 1 and 2)

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 2)
Mr H F T Smith (Items 1 and 2)
Mr P Benner (Item 1)
Mr J A Hamilton (Items 3 and 4)
Mr E J G Smith (Item 2)
Mr R L Baxter (Item 4)
Mr J Peters (Item 3)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>FOREIGN AFFAIRS</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Anglo-French Continental Shelf</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>EEC Council of Ministers (Agriculture)</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>New Zealand Butter and Cheese</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Beef</td>
<td>4</td>
</tr>
<tr>
<td></td>
<td>Sugar</td>
<td>6</td>
</tr>
<tr>
<td>3.</td>
<td>CHANNEL TUNNEL</td>
<td>9</td>
</tr>
<tr>
<td>4.</td>
<td>BILL TO AMEND THE TRADE UNION AND LABOUR RELATIONS ACT 1974</td>
<td>12</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

It was reported that it would be difficult to take the Second Reading of the New Towns Bill on 28 November as proposed, because an informed Debate would not be possible if the Government's forthcoming consultative document on future new towns policy had not been published by then. This would not now be practicable, since there were some significant policy issues which still had to be settled. It would therefore be preferable to use that day for a Debate on the consultative document on The Review of the Price Code. It would then not be possible for the New Towns Bill to have its Second Reading until after the Christmas Recess; but this would be acceptable, provided that the Bill received the Royal Assent if possible by May, or at the very latest by July.
THE FOREIGN AND COMMONWEALTH SECRETARY said that he had held discussions in Paris on 19 November with President Giscard d'Estaing and with M Sauvagnargues, the French Foreign Minister. In discussion on current energy issues, it appeared that the positions of the United States and of France might be closer than their public postures suggested. It was desirable to do everything possible to reconcile their policy positions. He hoped that the meeting next month between the French and American Presidents would carry this process forward.

The Foreign and Commonwealth Secretary said that, in discussion of preparations for the meeting of Heads of Governments of Member States of the European Economic Community (EEC), he had made plain that the Prime Minister would raise the question of renegotiation. He had explained our case on the budget issue, but had not convinced the French. Similarly in discussion of the EEC's common agricultural policy (CAP) the French had asserted that it was now to our advantage and to their disadvantage for them to sell us foodstuffs at EEC rather than world prices. He had emphasised to President Giscard the political importance of the Government fulfilling its undertakings on renegotiation, and particularly the political nature of the budget issue. Although President Giscard had given nothing away, he appeared to recognise this factor. In general, the French Foreign Minister had given the impression that he was disposed to welcome some support from other Member States, with a growing recognition that France too faced serious economic and other domestic problems.

The Cabinet -

1. Took note of the statement by the Foreign and Commonwealth Secretary.

THE FOREIGN AND COMMONWEALTH SECRETARY said that in the course of his discussions in Paris, Mr Sauvagnargues said that the French wished to authorise, by next March at the latest, some pilot borings in what he described as non-contested areas in the Western Approaches.

He had told M Sauvagnargues that we would be ready to examine this request when we had received the necessary information from the French; but it was important that the arbitral tribunal which we had jointly agreed to establish to resolve our differences over the division of the Continental Shelf should be set up as quickly as possible.
THE SECRETARY OF STATE FOR ENERGY said that the French request should be examined very carefully: we should not agree to it if there were a danger that by so doing we would weaken our case before the tribunal.

The Cabinet -

2. Took note of the statements by the Foreign and Commonwealth Secretary and the Secretary of State for Energy.

The Cabinet had before them a minute dated 20 November from the Minister of Agriculture, Fisheries and Food to the Prime Minister reporting the results of the meeting of the Council of Ministers (Agriculture) on 18-20 November.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the main decisions of the Council related to the price for New Zealand butter and cheese imported under Protocol 18 of the Treaty of Accession; new beef marketing arrangements for the United Kingdom; and arrangements for the import of sugar from developing countries under Protocol 22 of the Treaty of Accession. The negotiations at this Council had proved to be the hardest he had experienced; he had noticed a hardening of attitude by other Member States in the face of further and continuing demands by the United Kingdom for special arrangements.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Council had adopted a proposal to increase the price of imports into the United Kingdom of butter and cheese from New Zealand by 18 per cent from 1 January 1975. Throughout the discussion he had maintained contact with the New Zealand Minister of Overseas Trade. The latter was content with the outcome of the discussion, and had publicly welcomed it, giving particular credit to the efforts of the British Government.

The Cabinet -

3. Took note, with approval, of the decision of the Council of Ministers (Agriculture) on the price of New Zealand butter and cheese.
THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that agreement had been reached in the Council of Ministers to the United Kingdom introducing new arrangements for beef marketing, involving variable slaughter premia (which were deficiency payments under another name) together with limited support buying at prices well below our national intervention and guaranteed prices. This was a temporary arrangement and without prejudice to the permanent beef regime to be introduced from 1 March 1975. He had had much difficulty in obtaining agreement to our requirements, particularly since the principle of deficiency payments had been totally unacceptable to the EEC in the past. He believed that the new arrangements would give British farmers a firm floor price for their beef cattle; and that they would not involve intervention buying of large amounts of beef nor lead to increased levies on imports when they were resumed. At the Council he had again pressed the need to permit imports from Botswana and Swaziland.

In discussion it was argued that, although the right to reintroduce deficiency payments was valuable, the commitment to introduce intervention buying would have serious implications. This meant the acceptance of a principle, no matter in how modified a form, which the Government had publicly opposed. Moreover agreement on the new arrangements, since they were purely temporary, did not advance our objective of the fundamental reform of the CAP. Indeed a system whereby Britain paid for agricultural support for other members of the EEC through the CAP while paying out of our own Exchequer to the order of £15 million in this instance, for support for British farmers was unsatisfactory. Action should be concentrated on our major objective of reforming fundamental features of the CAP which were detrimental to the interests of consumers and international trade.

On the other hand it was argued that acceptance - even if temporarily - of deficiency payments, which the EEC had hitherto resolutely opposed, was to be welcomed and would have a most valuable impact on the forthcoming negotiations within the CAP stocktaking and on the future beef regime. Our objections to full-scale EEC intervention were more practical than doctrinal, as the existence of support buying arrangements for potatoes in the United Kingdom showed. The Government had to deal with the very serious problems facing farmers; in present circumstances, and as part of arrangements designed as a whole to restore confidence in the market, limited intervention buying was an acceptable price to pay. If the new arrangements led, as they should, to firming-up of the market, it would make it easier to restore imports, and lead to lower levies on imports. The CAP was in fact changing under the pressure of events as well as the impact of our renegotiation objectives.
In further discussion the following points were made -

a. Preparations for the negotiations on the permanent beef regime should be pursued urgently. In these negotiations it would be a mistake to accept as the starting point the position which would be reached by 31 January 1975, when the intervention price would be 85 per cent of the guide price.

b. The presentation of the decision reached at the Council of Ministers would require careful handling. We should not claim to have achieved a major victory. The temporary nature of the arrangements, and the fact that they were without prejudice to the negotiations for a permanent regime, should be made clear. On the other hand we should claim credit for dealing with a difficult situation in the livestock industry - the new arrangements had been welcomed by the President of the National Farmers Union - and for the reintroduction of deficiency payments.

c. It had been agreed at the Council of Ministers that parallel payments should be made on imports of cattle (without any domiciliary period) and beef from the Irish Republic. This was inevitable; nevertheless there was still feeling among Welsh farmers on this matter, and difficulties would be caused in Northern Ireland if it appeared that farmers there were in a less advantageous position than those in the Irish Republic.

d. An understanding had been reached with the Commission, despite French reservations, that any savings on variable slaughter premia early in the period of the arrangements could be used later in the period; this should help to ensure maintenance of the guaranteed price which otherwise might come under pressure later in the period.

e. Storage capacity for beef taken into intervention was limited. However, since sales into intervention would not benefit from slaughter premia payments, and since the market was likely to firm up in the coming weeks, the quantities likely to go into intervention could be expected to be small. The Intervention Board for Agricultural Produce was of the view that it could cope with the quantities likely to be offered.
OF THE COUNCIL

THE LORD PRESIDENT, summing up the discussion, said that the Cabinet took note of the arrangements for the marketing of beef in this country which had been agreed at the Council of Ministers (Agriculture). Although some members had expressed serious reservations, these arrangements had widespread support in the Cabinet.

The Cabinet:

4. Took note, with approval, of the Lord President of the Council's summing up of their discussion.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that two aspects of the arrangements for the import of sugar into the EEC from certain developing, principally Commonwealth, countries under Protocol 22 of the Treaty of Accession had been left over from the Council of Ministers (Foreign Affairs). These related to the duration of the agreement and the prices to be guaranteed under it.

At the Council of Ministers (Agriculture) a fully satisfactory formula for the duration of the arrangements had been agreed. This provided that the principle of the guarantee to buy sugar would be valid for an indefinite period; that the procedures for implementing it should be open to review, and that there would be a review before the end of the seventh year; but that no amendments (apart from cases of deliberate shortfall) should be made for five years. This formula recognised the seven-year cycle of cane sugar production. It was at least as good as the duration formula of the Commonwealth Sugar Agreement (CSA).

The negotiation about prices had proved particularly difficult. In the end a formula in two parts had been agreed. There would be a long-term basic guaranteed price which would be within the prices applicable in the Community. In addition, in the present circumstances of high world prices - and this meant at least for 1975 and, if necessary, for 1976 - it would be possible to supplement the basic guaranteed price on a national basis.

Although a price within Community prices would currently be equivalent to less than £140 a ton FOB, a "high world price" supplement would consequently be payable in the present situation, and Community prices could be expected to rise in the meantime to the equivalent of £140 a ton FOB.
The Minister of Agriculture, Fisheries and Food said that he had accepted these arrangements ad referendum to the Cabinet. He would have to lift or confirm his reservation by the end of Friday, 22 November. The negotiations between the Community and the Protocol 22 countries should then be pursued urgently. It was not possible at this stage to forecast precisely what prices were likely to emerge from those negotiations.

In discussion it was argued that the decision on duration was a notable achievement. It represented a defeat for those dominated by the European beet interests, and a recognition that, following the United Kingdom's accession, the EEC had to pay more regard to the developing countries - a fact that the developing countries themselves had acknowledged. The assurance of access for an indefinite period plus a firm basis for the establishment of prices was to be welcomed. The recognition that, in periods of exceptionally high world prices the long-term price arrangements might not prove adequate, and could be supplemented on a national basis, was valuable in principle. The strains thrown upon long-term contracts when the residual world price reached exceptionally high levels had been shown in the operation of the CSA this year; and supplementary payments had been required. If the CSA had been continuing, present circumstances would have required some system to be devised which would have distinguished between the price that had to be paid in the immediate future and the long-term price basis.

On the other hand it was argued that to limit the long-term price payable under Protocol 22 to the price payable for European beet sugar would not be acceptable to the CSA countries, and would therefore effectively nullify the guarantee of access. We should not accept the proposals ourselves unless they were acceptable to the CSA countries. As the proposals stood, we could get the worst of both worlds. Only the Community as a whole could enter into a long-term contract, and only the Community as a whole could determine the price to be offered. If that price proved inadequate, we should not have the option of negotiating a supplement on a long-term basis, under which we might well be able to reach agreement with our CSA suppliers at a reasonable level. Instead we were free only to pay a supplement on an annual basis and we must expect our suppliers to charge a high price since they would have no long-term assurance of the supplement. Moreover, the national responsibility for financing the supplement would seem to detract from the decision taken last month at the Council of Ministers (Agriculture) by which it was to be a Community responsibility to assure us of our sugar supplies and, if need be, to subsidise the price down to the Community level.
However it was suggested that it was to our advantage for the supplement to be on a national basis; this would help us to safeguard employment in our refinery industry. We were on this occasion in the unusual situation of wishing to pay a higher price than the rest of the Community. Whatever prices were finally agreed for 1975, it was realistic to expect there to be a short-fall from the 1.4 million tons of imports from the CSA countries; we should try to ensure that this short-fall did not prejudice their future rights of access. There was in any case likely to be a gap between our imports under Protocol 22 plus home production on the one hand and total United Kingdom demand on the other; but we would be at liberty to make good that gap from any source.

OF THE COUNCIL

THE LORD PRESIDENT/ summing up the discussion, said that the Minister of Agriculture, Fisheries and Food had circulated to the Prime Minister and other Ministers directly concerned, his proposals on duration and price for the Protocol 22 arrangements on sugar before the meeting of the Council of Ministers (Agriculture). The Council decision on duration was clearly within his remit and that on price was in principle consistent with it. It was the view of the majority of the Cabinet that the decisions on sugar reached at the Council of Ministers (Agriculture) should be accepted, and that the reserve on British acceptance of them should now be lifted. The Minister of Agriculture, Fisheries and Food had been faced with difficult and complex negotiations throughout the whole meeting of the Council of Ministers; he was to be warmly congratulated on what he had achieved.

The Cabinet -

5. Took note, with approval, of the Lord President of the Council's summing up of their discussion.

6. Invited the Minister of Agriculture, Fisheries and Food to lift his reserve on the decisions on sugar taken at the Council of Ministers (Agriculture) on 18-20 November.
3. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(74) 135) containing his proposals for the next steps in dealing with the Parliamentary, technical and international aspects of the Channel Tunnel project.

THE SECRETARY OF STATE FOR THE ENVIRONMENT recalled that in March, the Cabinet had agreed that Phase II of the project should go ahead, subject to a most searching reappraisal of all aspects of the scheme, and on the firm understanding that the Government were completely uncommitted as to its future. Recently, it had been agreed that the Channel Tunnel Bill should be reintroduced in Parliament, and that an early policy statement should be made by him. Since March there had been one major change in the situation; the cost of the proposed new high-speed rail link had escalated by two or three times, so that it was now clear that this proposal should not be proceeded with: British Rail were considering an alternative solution which might reduce the price of the rail link to an acceptable level. In Parliament, there had been a shift of opinion against the Tunnel, though the Early Day Motion opposing the project had so far attracted only 85 signatures, fewer than had been expected. He was strongly opposed to seizing the opportunity to cancel the project now. This in his view would be frivolous and irresponsible, because it was essential to have the report of the Cairncross Committee, and the results of Phase II of the project, and British Rail’s proposals for a modified rail link, before the Cabinet would have the information on which to base a considered decision. Taking the long view, the Tunnel might well prove more cost-effective than any other option; ways must be found to convey more traffic across the Channel, and we did not know that the alternative of increased investment in ferries, ports, roads, airports, aircraft and the rest would not involve larger sums than the Tunnel project. The Tunnel was the only way to link the rail networks of Britain and Europe, and would provide a useful stimulus to British Rail. There would be no financial advantage in cancelling the project now; expenditure on Phase II was limited to the cost of two or three hundred tunnellers and some highly specialised tunnelling equipment. Because of the arrangement for Government guarantees for financing the project, to cancel the project would cost money which would not be forfeited if the project went ahead. Therefore, he proposed to seek to negotiate with the French Government a delay of at least a year before taking a decision whether to proceed with Phase III of the project. He would like to make an announcement the following week in Parliament that this was being done, and that the Government had decided not to proceed with the high-speed rail link; such an announcement would at once disarm many of those who objected to the rail link, and those who felt that the prospective economic difficulties of the next couple of years made it inappropriate to spend large sums of
money on this project. The Cairncross inquiry should continue, and so should Phase II, until enough information had been obtained for the Cabinet to consider the matter properly. He hoped that Sir Alec Cairncross would produce an interim report in the New Year, and a final report by about April. Phase II studies should be complete during the first half of 1975, and in the spring British Rail should produce their revised proposals for a rail link, at least in preliminary form. If the Cabinet agreed with his proposal, therefore, this did not mean that they were putting off the possibility of taking any decision on the project for a long time to come.

In discussion, it was argued that the progress of the project so far had borne out all the fears which had been expressed at the beginning. The project was becoming more and more expensive; indeed, the escalation on the rail link far exceeded what was usual even for technological developments of this kind; the prospect that a suitable rail link could be completed at reasonable cost was getting more and more remote; the longer a decision was postponed, the harder it would be eventually to cancel the project. In the meantime, until a decision was taken, large areas of the South East were blighted, while the pull of the Tunnel prospect enhanced regional imbalance. At a time when Ministers were proclaiming an economic crisis and the need to reduce public expenditure, it made no sort of sense to continue with the project. A Channel Tunnel had been considered for more than a hundred years, and the arguments against it had always been found compelling; we might expect that the French Government were also making their own reappraisal of the project, and they would certainly not hesitate to abandon it if they felt that that was in their own best interest. The right course therefore was to decide now to withdraw from the project, before we found ourselves trapped into spending larger and larger sums of money to no good end.

On the other hand, it was argued that it would be irresponsible and frivolous to cancel the project without the information which would become available from the Cairncross Committee, Phase II, and British Rail’s new look at the rail link. It might be possible to make a re-assessment of the wisdom of continuing in the spring. Of course, the high-speed rail link as originally proposed should be abandoned, and any new proposals from British Rail should be examined very carefully indeed. The Tunnel could prove much more cost-effective in energy terms than alternative possibilities, although admittedly we would be committing large sums of money to a single programme if it went ahead. The French would probably be receptive to the proposal for some delay. Indeed they might themselves be reappraising the viability of the project. Nevertheless they were pushing ahead with ratifying the Treaty because of the risk
of claims for compensation from the companies if they allowed the due date to pass: if the British Government decided to withdraw from the project now, the French would be certain to put the full blame and any consequential charges on us, whereas if we proposed a delay to them and they agreed, we would be able to take steps jointly to ensure that the least expenditure was involved before a proper decision could be taken, either to proceed with the scheme or to cancel it.

In further discussion it was emphasised that if the Secretary of State's proposals were accepted, it would be essential to meet likely opposition in Parliament by making a very full statement, and also by meeting the Parliamentary opponents of the scheme in order to try to convince them of the wisdom of the Government's policy.

OF THE COUNCIL

THE LORD PRESIDENT/summing up the discussion, said that on balance the Cabinet agreed with the Secretary of State's proposals. The opportunity of talking to the French about postponing Phase III of the project should be taken to try and ascertain their current views more generally about its viability. In view of the very important international, financial and regional implications, it seemed desirable that a small Ministerial Committee should be set up to keep an eye on developments, and in particular the negotiations with the French Government, the Cairncross Report, the Phase II studies, British Rail's new appraisal of the rail link, and the regional implications.

The Cabinet -

1. Approved the recommendations in paragraph 13 of C(74) 135.

2. Invited the Secretary of State for the Environment, in consultation with the Secretary of State for Foreign and Commonwealth Affairs, to seek agreement with the French Government on postponing for at least a year a decision on Phase III of the project.

3. Invited the Secretary of State for the Environment to arrange for the reintroduction of the Channel Tunnel Bill on Report, prefaced by a statement in Parliament on the high-speed rail link and the result of his approach to the French Government.

4. Instructed the Secretary of the Cabinet to seek the Prime Minister's approval for the establishment of a small Ministerial Committee on the lines proposed by the Lord President in his summing up.
4. THE SECRETARY OF STATE FOR EMPLOYMENT said that the General Council of the Trades Union Congress (TUC) at their meeting the previous day had accepted the proposal put to them by the General Secretary of the TUC for a non-statutory appeals procedure. They had accepted it in exactly the form to which the Cabinet had agreed, substituting "in consultation" for "after consultation" as had been suggested in Cabinet. He would now proceed with the introduction of the Government Bill to amend the Trade Union and Labour Relations Act. As regards the National Union of Journalists (NUJ) he was not yet ready to propose what action should be taken. He had met certain editors who had proposed an ill-considered amendment to the Bill, the effect of which would be to destroy an essential part of it. He had told them that he would try to find some other way to deal with the matter. The question was certain to arise during the second reading of the Bill, and it would be possible to introduce an amendment to the Bill at that stage if any valid suggestion were made.

In discussion it was argued that the question of Press freedom was too broad to be discussed only in relation to one clause in the Bill. The Cabinet should consider this question separately.

OF THE COUNCIL

THE LORD PRESIDENT, summing up the discussion, said that the Cabinet took note of the decision by the TUC General Council and agreed that the Government Bill should now be introduced. As regards the threat to Press freedom posed by the NUJ, it would be necessary to provide an answer to the Parliamentary attacks that were likely to be mounted by the Opposition at the debate on the second reading. After the second reading the Cabinet would expect to see proposals for action in fulfilment of the conclusions of their meeting on 14 November.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Lord President of the Council.

Cabinet Office

21 November 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
MONDAY 25 NOVEMBER 1974
at 10.00 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department (Item 1)

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales
The Rt Hon Merlyn Rees MP  
Secretary of State for Northern Ireland  
The Rt Hon Harold Lever MP  
Chancellor of the Duchy of Lancaster  
The Rt Hon Lord Shepherd  
Lord Privy Seal  
The Rt Hon Robert Mellish MP  
Parliamentary Secretary, Treasury  
The Rt Hon John Silkin MP  
Minister for Planning and Local Government  

THE FOLLOWING WERE ALSO PRESENT  
The Rt Hon Samuel Silkin QC MP  
Attorney General (Item 1)  
The Rt Hon Ronald King Murray QC MP  
Lord Advocate (Item 1)  
Mr Joel Barnett MP  
Chief Secretary, Treasury (Item 3)  

SECRETARIAT  
Sir John Hunt  
Mr H F T Smith (Items 1 and 2)  
Mr P Benner (Item 1)  
Mr J A Hamilton (Item 3)  
Mr J Roberts (Item 2)  
Mr J A Marshall (Item 3)  

CONTENTS  

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>IRA TERRORISM IN GREAT BRITAIN</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>DEFENCE REVIEW</td>
<td>5</td>
</tr>
<tr>
<td>3.</td>
<td>PUBLIC EXPENDITURE</td>
<td>6</td>
</tr>
</tbody>
</table>
1. The Cabinet had before them a memorandum by the Home Secretary (C(74) 139) about legislation on terrorism by the Irish Republican Army (IRA).

THE HOME SECRETARY said that the Police and the Security Service had in the past been opposed to banning the IRA on the ground that this would tend to make their task more difficult. They had however favoured an extension of the power of the Police to hold without charge; but legislation on this had hitherto seemed impracticable. The revulsion of feeling in the country and in Parliament following the recent terrorist incidents in Birmingham had however made possible legislation on a package which would both provide substantially wider powers for the Police and enable the IRA and other terrorist organisations connected with Northern Ireland to be proscribed.

It was argued in some quarters that it would be desirable to reintroduce identity cards as a security measure; but the consequential calls on resources of manpower and money would be quite disproportionate to the likely benefits. The provisions of the Bill which it was hoped to introduce on 27 November, and to pass through all its stages on the following day, fell into four main groups. First, the Bill would proscribe the IRA and give power to make further proscriptions by Order of organisations involved in terrorism in the Northern Ireland context. It would become a punishable offence to be a member of, or to support, a proscribed organisation, or to display publicly items of dress or other articles indicating membership or support of a proscribed organisation. This latter proposal would involve a substantial widening of the powers at present contained in the Public Order Act 1936, which were of uncertain applicability. Secondly, it was proposed that the Secretary of State should have power to make Orders prohibiting persons he believed to be involved in terrorism from entering, or expelling them from, Great Britain. It had originally been intended to exclude from the application of this power citizens of the United Kingdom or Colonies who had been ordinarily resident in Great Britain for the last 20 years or, if less than 20 years of age, since their birth; but he now proposed to reconsider this proposal because the Birmingham experience showed that residents of even longer standing might be associated with terrorism. It would be an offence to fail to comply with an exclusion order, or knowingly to harbour a person subject to an order or to facilitate his entry into Great Britain. Thirdly, it was proposed that the Police should be empowered to detain a suspected terrorist without charge for 48 hours, and for a further five days with the consent of the Secretary of State, and to take his fingerprints. Fourthly, the Bill would give the Secretary of State power to make an Order providing for the control of travel into and out of Great Britain and for the appointment of officers to operate the control. It was intended to make an Order as soon as the Bill became law; this would
not be a vehicle for control over all passengers moving between Great Britain and Ireland but would enable selective checks to be operated by the Police - indeed, manpower stringency often would prevent anything more, for example at some of the Scottish ports. These were very wide powers, unprecedented in peacetime; and he therefore proposed that the new provisions should expire six months after becoming law, but that there should be power to renew them for further periods of six months by means of Orders subject to Affirmative Resolution.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that it was important to ensure that the proposed new legislation would not have undesirable practical or political implications for Northern Ireland. There, the IRA was already proscribed; but experience showed that it was generally not in practice possible to take action against public displays of support for it, such as uniformed processions. It was also important not to extend proscription so wide that no scope was left for legitimate political activity. It was desirable that the proposed powers for controlling travel between Great Britain and Ireland should be matched by similar powers to control travel across the Border with the Irish Republic, though here again only selective action would be possible. As regards the proposed powers of arrest and detention, the Bill would provide wider powers in Great Britain than existed in Northern Ireland, where a suspect could be held for only 72 hours. It would cause him much difficulty if Northern Ireland practice were not brought into line and he hoped it would be possible to do this at an early date when the Emergency Provisions (Northern Ireland) Act came up for renewal. He was however particularly concerned about the proposed power to make exclusion orders. It was doubtful whether people subject to such orders would be admitted to the Irish Republic, and most of them would therefore probably finish up in Northern Ireland. Those against whom charges could be made would be taken before the courts and, it was to be hoped, imprisoned; and virtually all the remainder were likely to be detained under Interim Custody Orders made by the Secretary of State. The implications for security in Northern Ireland could be harmful, all the more so because of the present inadequacy of prison accommodation and staff. A good many of the present troubles in Northern Ireland were worsened by the irresolution of the Dublin Government in combating terrorism, and the opportunity should be taken to press them vigorously for stronger measures and for closer co-operation with the Northern Ireland authorities.

In discussion, it was argued that drastic powers, despite their worrying implications for civil liberties, were justified by the special circumstances of the time. Terrorism in this country was now a much more serious threat than it had been in 1939 when the Prevention of Violence (Temporary Provisions) Act was passed.
Northern Ireland was on the verge of civil war, which the IRA were seeking to extend to Great Britain. The Birmingham incidents had violently aroused public opinion; and unless the Government showed a firm determination to act against terrorism there was likely to be an intensified public reaction against the Irish community here.

It was however argued that there was legitimate ground for anxiety about the erosion of civil liberties. It was, for example, proposed that a person against whom an exclusion order had been made should be able to make representations only to the Secretary of State, and not to apply to the courts, on the ground that the making of such orders must be an executive act. But this safeguard was inadequate and some more satisfactory right of appeal was needed. The provision on exclusion orders was tantamount to a power to banish British citizens. This had been unknown in Britain since the Middle Ages. It was likely that it would lead to proceedings before the European Commission on Human Rights, which the United Kingdom Government would almost certainly lose. It would be preferable to drop this power altogether; but if it had to be retained, it would be desirable for the provisions of the legislation to run only for periods of three months, rather than six months as proposed. Anxiety about the implications for Northern Ireland were heightened by the fact that there could be no certainty how the new legislation would work in practice. But the return of terrorists to Northern Ireland under exclusion orders could exacerbate the situation there, and perhaps lead to an increase in attacks on the security forces. On the other hand it was argued that exclusion orders were a necessary part of the proposed package although the number of persons subject to orders would not be large. The orders would not apply to persons born in Great Britain, and the power to expel would be used only where such action was justified on the ground that the individual concerned had connections with a territory outside Great Britain. A life of only three months for the new powers would be too short; but an assurance could be given that the working of the legislation would be reviewed before the end of the first six-month period, so that amendments could be made if necessary. In relation to exclusion orders an additional safeguard might be provided by giving a right of appeal to the Security Commission, who would of course have to be consulted in advance, or an undertaking by the Home Secretary to consult the Commission.

In subsequent discussion, it was pointed out that the Parliamentary handling of the legislation would need careful thought. The Opposition were likely to ask for a general debate on Northern Ireland. Because of the urgency of the legislation, this could scarcely take place in conjunction with consideration of the Bill; but time should be found as soon as possible thereafter. There was a particular danger that amendments might be tabled for the restoration of the death penalty. Such amendments should if possible be precluded, partly because they
would seriously delay the passage of the Bill and partly because any question of restoring the death penalty should preferably be considered later, when passions had cooled.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had concluded that the Home Secretary's proposals must be supported, including the proposed power to make exclusion orders: the danger from terrorism was greater than it had been in 1939 and powers must be taken at least as wide as those in the Prevention of Violence (Temporary Provisions) Act 1939. The better co-operation of the Government of the Irish Republic on security matters was essential; and urgent talks must be held with them. Anxiety had been expressed about the implications of the proposals for civil liberty and about their implications for the situation in Northern Ireland itself. The Home Secretary, in consultation with the Lord Chancellor, the Secretary of State for Scotland, the Secretary of State for Northern Ireland and the English and Scottish Law Officers should arrange for an urgent examination of the detailed provisions of the Bill to see, in the light of the discussion, how far the anxieties which had been expressed could be met. On specific points it had been agreed that the Home Secretary would consider the possibility of establishing criteria for the use of the power to make exclusion orders and of enlarging the right of appeal; and he would make clear that, although it was proposed that the new powers should run for six months, there would be a review of the working of the legislation before the end of the first six-month period so that amendments could be proposed if necessary. The Prime Minister continued that if, in the light of the interdepartmental consultations, it seemed that further collective consideration was required, he would consider with the Home Secretary what arrangements should be made for this. As regards the handling of the Bill in Parliament, it would be desirable for the Home Secretary to meet Government supporters in advance in order to explain what was proposed. The aim should be for the Bill to complete all its stages in both Houses on 28 November; but if, as was likely, the whole of that day was required for proceedings in the House of Commons it should be taken in the House of Lords on the following day. It would probably be necessary to promise an early general debate on Northern Ireland. The Long Title of the Bill should if possible be drawn so as to preclude amendments seeking the restoration of capital punishment; but if this were impracticable, or if pressure on the matter proved too strong, a separate debate should be promised, though after an interval long enough to allow for cooler reflection.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Home Secretary, in consultation with the other Ministers concerned, to proceed accordingly.
2. The Cabinet had before them a note by the Secretary of the Cabinet (C(74) 137) covering the draft of a Parliamentary statement on the Defence Review.

THE PRIME MINISTER, summing up a short discussion, said that subject to a small number of drafting amendments which had been proposed and accepted, the draft statement was approved. It would be made by the Secretary of State for Defence on 3 December. In the meantime the strictest security about its contents should be maintained.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. The Cabinet considered memoranda by the Chancellor of the Exchequer (C(74) 136) and by the Secretary of State for Social Services (C(74) 138) on public expenditure from 1974-75 to 1978-79.

THE CHANCELLOR OF THE EXCHEQUER said that his memorandum set out the extent to which he had been able to reach agreement on further adjustments to the expenditure figures following the Cabinet's last discussion. The proposals he put forward would enable the average annual rate of increase in expenditure to be kept within the agreed limit of 2⅓ per cent a year in demand terms, but a great deal would turn upon the Government's ability to control local authority expenditure and its willingness to go forward with increases in nationalised industry prices on which, in spite of the political problems they would produce, they were all agreed. On overseas aid, he had reached agreement with the Minister on an increase of £24 million in 1975-76 and £6 million in 1976-77, which would avoid a fall in real terms between those two years. He was grateful to those of his colleagues who had been prepared to accept what he had proposed in the interests of maintaining the overall limit. On defence expenditure, he would have preferred to have kept to the lower figure of £3,750 million for 1978-79, but was prepared to accept the Secretary of State's figure of £3,800 million on the understanding that it should be regarded as provisional pending further consultation with allies and the preparation of next year's long term costings; that no public statement should be made which would prevent the figure being considered further; and that the Cabinet were prepared to accept the rest of his proposals.

The only programme on which agreement had not been reached was social security. The Secretary of State for Social Services was asking for the extension in 1976 of family allowances to the first child of one-parent families. Although the initial cost was small - £7½ million - it could add £100 million to the cost of family endowment. It could only be accepted by cutting into the contingency reserve. In his view it would be better to wait until next year and take a decision when the Government could see more clearly whether they would be able to stick to a single uprating of benefits in 1976 without a Christmas bonus in that year. He thought it would be unfair to other Ministers if an item not previously discussed were added at the last minute in this way.

On the minor items listed in Table 3 of C(74) 120, he sought authority to come to an agreement bilaterally with the Ministers concerned. If they were agreed they would count against the contingency reserve. He drew the attention of Cabinet to the fact that his proposals would involve an increase of 3p each year from April, 1975, in the charge for school meals. He asked his colleagues to accept the table attached to C(74) 136 as a basis for the preparation of the Public Expenditure White Paper; the figures for intervening years could be agreed without difficulty between officials.
THE SECRETARY OF STATE FOR SOCIAL SERVICES said that her proposal to extend family allowances to the first child of one-parent families in 1976 was an attempt to reduce the hardship that would arise from the postponement of the introduction of child allowances until 1977. She was under great Parliamentary pressure to make a statement about the Government's intention on the timing of the introduction of child allowances, and the announcement that this was not to be until 1977 would produce a profound shock. The Government could not plead reasons of administrative difficulty - the Conservative Administration had planned to introduce their scheme in 1976 - and they would have to admit that the delay was necessary on expenditure grounds. At the same time the Government would be making clear their intention to allow nationalised industry prices to move to a more realistic level and would be increasing the charge for school meals. If the Government, in this situation, were seen to be doing nothing for this most vulnerable section of the community they would be subject to great criticism. Expenditure on family support was actually planned to fall from £1240 million in 1974-75 to £910 million in 1978-79. This was the result of three factors: no allowance was made in the Survey for upratings of Family Allowances after 1975; it was assumed that there would be no increase in child tax allowances in 1976 or 1977, and that thereafter they would be increased only enough to compensate for half of the increase in prices; and it had been assumed that when child allowances were introduced in 1977 it would be at a rate of £2.16 a week. She pointed out that in September 1976, eight months before the child allowances were to be introduced, the average family with two children would be £1 a week worse off than they were now and there would be food price increases on top of that. The one-child family would get catastrophically poorer. Her proposed step was a modest one, benefiting half a million children and would help the very poorest people. She did not accept the Chancellor's view that the consequence of introducing it would be to add £100 million to the child allowance scheme. The absorption of the benefit for the first child of lone parents into the child allowance scheme would mean an increase in the rate from £2.16 to £2.20 at a cost of only £16 million: this would be enough to ensure that no family was worse off after introduction than before. In any case she thought it wholly unrealistic to assume that child tax allowances would not have to be increased between now and 1977, and if they were, the cost of child allowances would inevitably be higher without necessarily helping the most needy.

In discussion the following points were made -

a. The cuts in education expenditure were acceptable, but they were not welcome and there would no doubt be difficulty with those concerned in education matters.
b. The increase in the school meals charge would take place in April 1975 to coincide with the introduction of the new social security rates. At 15p it would cover about half of the cost of the meal and would save about £29 million. There should be another drive to ensure that children who received free meals were not publicly identified in their schools.

c. Parliamentary pressure over one-parent families did not of itself justify the proposed increase. Most spending Ministers were subject to Parliamentary pressures, not least on housing, on which Labour Members had shown deep concern in the Debate on The Queen’s Speech.

d. Taken in isolation the proposal on family allowances was insufficiently argued. This reinforced the need for a social monitoring system which would measure progress in the field of social policy - a suggestion which had been strongly advocated in a previous paper.

In further discussion it was suggested that it might be possible to help single-parent families by other means, such as treating maintenance payments as earned rather than unearned income for tax purposes. This could be considered in the context of next April’s Budget. To this it was objected that it would not help the people most in need of help - the poorest who did not pay tax - and that it would be too late to introduce the change in family allowances which had been proposed. It was acknowledged that there was a need to relate together decisions touching on social policy, such as the increase in the age allowance announced in the Budget earlier in the month. There would be advantage in setting up an Anti-Poverty Committee to consider the position and to offer advice on the interrelationship of policies in different fields which touched on the problem of poverty.

THE PRIME MINISTER, summing up the discussion, said that, subject to further discussion of the proposal on family allowances, the Cabinet agreed the proposals put forward in the memorandum by the Chancellor of the Exchequer. Defence expenditure would be entered at the higher figure, on the understanding that this was a provisional figure dependent upon further consultation with our allies and the preparation of the 1975 Long-Term Costings. The Cabinet agreed that the charge for school meals should be increased by 3p from April 1975. They accepted the table attached to the Chancellor of the Exchequer’s memorandum as the basis for the Public Expenditure White Paper, preparation of which could now proceed. The Chancellor of the Exchequer should settle with the Ministers directly concerned the minor items referred to in paragraph 4j. of his paper. An Anti-Poverty Committee would be set up with a general remit to consider the interrelationship of
policies touching on poverty; this Committee should consider urgently, with a view to reporting to Cabinet before Christmas, the proposal to extend family allowances to the first child of one-parent families.

The Cabinet -

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

2. Agreed the proposals in paragraphs 4 and 5 of C(74) 136, save that for defence the figure of £3,800 million in 1978-79 should be provisionally accepted instead of £3,750 million.

3. Agreed that the table attached to C(74) 136 be accepted as the basis for the Public Expenditure White Paper.

4. Took note that the Prime Minister would arrange for the establishment of a Committee to review policies related to anti-poverty; and that it would be asked to produce an early report on the proposal in C(74) 138.

Cabinet Office

25 November 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 5 DECEMBER 1974
at 10.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

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

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster (Items 1 and 2)

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government
THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP Attorney General (Items 3-7)

The Rt Hon Ronald King Murray QC MP Lord Advocate (Item 4)

The Rt Hon Fred Mulley MP Minister for Transport (Item 3)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Item 2)
Mr H F T Smith (Items 1 and 2)
Mr P Benner (Item 1)
Mr J A Hamilton (Items 3-7)
Mr R J O'Neill (Item 2)
Mr R L Baxter (Items 4, 6 and 7)
Mr J Peters (Items 3 and 5)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital Punishment</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Legislative Programme</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>FOREIGN AFFAIRS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Rhodesia</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Europe: Prime Minister's Meetings with the Chancellor of the Federal</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Republic of Germany and with the French President</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>ENERGY SAVING</td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>TRADE UNION AND LABOUR RELATIONS (AMENDMENT) BILL</td>
<td>10</td>
</tr>
<tr>
<td>5</td>
<td>THE HS 146 AIRCRAFT PROJECT</td>
<td>11</td>
</tr>
<tr>
<td>6</td>
<td>TOP SALARIES</td>
<td>14</td>
</tr>
<tr>
<td>7</td>
<td>SCOTTISH TEACHERS' PAY</td>
<td>14</td>
</tr>
</tbody>
</table>
The Cabinet were informed of the business to be taken in the House of Commons during the following week. It was proposed that the House should rise for the Christmas adjournment on Friday 20 December and resume on Monday 13 January 1975.

Capital Punishment

It was proposed that the Debate on capital punishment on 11 December should take place on a backbench Motion opposing the reintroduction of capital punishment. It was thought that Mr Brian Walden MP would be willing to put down such a Motion; and the Lord President, in consultation with the Home Secretary and the Chief Whip, would consider the exact wording. The Ministers would also consider the arrangements for handling the Debate. The present intention was that the Home Secretary should intervene, preferably at or near the end of the Debate. There should probably be only one Ministerial speaker; but an intervention by the Secretary of State for Northern Ireland might be considered if it would secure the intervention in the Debate of a major member of the Opposition front bench opposed to the reintroduction of capital punishment. It was important that as many as possible of the Government's supporters should be present and vote; and it was helpful that it would be necessary to impose a three-line whip for the immediately succeeding item of business (consideration of any Lords amendments to the Social Security Amendment Bill).

THE LORD PRESIDENT OF THE COUNCIL informed the Cabinet that disturbingly slow progress was being made with the legislative programme. The programme which the Cabinet had agreed for the 1974-75 Session was an extremely heavy one. In relation to some of the most important Bills, there had been much delay in preparing Instructions for the Parliamentary draftsmen; and unless Departments urgently made a major effort to hasten progress, it might become totally impracticable to carry the programme through. The position was to be discussed at an early meeting of the Legislation Committee, and he hoped that all the Ministers concerned would be able to attend in person.

The Cabinet -

Took note.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that there were signs of movement in the Rhodesian issue. Mr Vorster, the Prime Minister of South Africa, had evidently concluded that he must stabilise his relations with the Black African countries and was accordingly putting pressure on Mr Ian Smith, the leader of the illegal regime in Rhodesia, to come to an early settlement. In November Mr Joshua Nkomo, the chairman of the Zimbabwe African People's Union and the Reverend N Sithole, chairman of the Zimbabwe African National Union, who were held in detention in Rhodesia, were released into the custody of the Zambian Foreign Minister, Mr Mwaanga so that they, together with Bishop Muzorewa, of the African National Council, might take part in talks in Lusaka with President Kaunda of Zambia and other African leaders. It seemed likely that they had been allowed to pay a further visit to Lusaka for meetings which were now going on, in which President Nyerere of Tanzania, President Sir Seretse Khama of Botswana and Senhor Machel, the President of Frelimo, were also participating. These discussions might lead to early developments. We might be moving into a situation where a constitutional conference on Rhodesia could take place; though past experience of Mr Ian Smith warned against over-optimism. At the present stage, it was right to leave it to the African leaders to make the running, and to hold any intervention by us in reserve in case they should run into difficulties. The Government's policies, both in Opposition and since it came into office, had put us in a good position with the Africans: our stock in Black Africa stood higher than it had at any time in the last 10 years.

The Cabinet -

Took note of the statement by the Foreign and Commonwealth Secretary.

THE PRIME MINISTER said that he had held useful discussions in the last few days with the Chancellor of the Federal Republic of Germany, Herr Schmidt and with the President of the French Republic, M. Giscard d'Estaing. In their joint Press conference at the end of Herr Schmidt's visit to Chequers on 1 December they had made clear that differences in national economic policies could be compatible with the harmonisation of economic policy as a whole within the European Economic Community (EEC); and he had been able to give Herr Schmidt some support, which he had welcomed, on the issue of reflating demand in the German economy. In their discussions they had agreed on the need for the EEC to have greater political control and responsiveness. On the renegotiation of the terms of United Kingdom membership of the EEC, he had impressed
strongly on Herr Schmidt that we were not concerned only with the budget issue, but attached great importance to each of the seven renegotiation aims set out in the February Election Manifesto; he had now sent Herr Schmidt a personal message which set out the position. His visit to Paris for talks with President Giscard had been deliberately handled in a low key, but it was noteworthy that the French Government spokesman had been authorised after the meeting of the French Cabinet on the previous day to stress the good climate in which the talks had taken place. As to the issues of renegotiation, M. Giscard had been at pains to give nothing away and he had defended well-known French views in familiar and somewhat "theological" terms. We should be ready to allow the French some degree of "theology" provided that we secured the concrete results we required. He had told both Herr Schmidt and M. Giscard that the success of renegotiation would have to be judged against what was achieved on all the Manifesto aims. He had also indicated to them that, while the issue would need to be considered by the Cabinet at the appropriate stage, the logic of the position which he had consistently taken up meant that for his part he would be prepared, if all the Manifesto commitments were satisfactorily met, to recommend to the British people that they should support the terms obtained.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the French President had raised the idea of establishing a small permanent political Secretariat for the purpose of supporting the Presidency of the EEC Council of Ministers during each 6-month period. This could also be valuable in promoting - and away from Brussels - the fuller political dimension which the Community required.

The Cabinet -

Took note.
3. The Cabinet considered a memorandum by the Secretary of State for Energy (C(74) 140) enclosing a draft statement on an interim package of measures to promote energy saving.

THE SECRETARY OF STATE FOR ENERGY said that energy saving had been discussed in the Ministerial Committee on Economic Strategy and also at the meeting at Chequers on 17 November. The House of Commons had been told that he would make a statement on energy saving by the end of November, and it was now very urgent to make this statement. Various Ministers might have reservations about the details of his proposals, but he hoped that he would be authorised to announce them in Parliament the following Monday; the package of measures in his paper was, he believed, the least that would be acceptable at home and abroad as evidence of the Government's firm intention to tackle an urgent problem. In considering the package, Ministers should remember that our object was to start a campaign which could be sustained for four or five years, and that the only means of achieving dramatic savings were drastic measures such as rota cuts, rationing or strict allocation which, besides causing a good deal of misery to the public, would involve massive disruptions of industry. In his covering memorandum he had picked out four points which were in dispute in earlier discussion. As regards lead content in petrol, he now accepted that we could not go back on the reduction made on 1 November, but he believed that there should be no further reductions pending a further review of the medical and economic implications. On speed limits, though he had previously favoured a general maximum of 55 mph rigidly enforced at 60 mph, he now proposed what was agreeable to the Secretary of State for the Environment, namely no change in the limit on motorways, a maximum limit of 60 mph on dual carriageways, and a maximum limit of 50 mph on single carriageways; this proposal took account of the enforcement aspect, and also of the fact that 90 per cent of traffic used single carriageways, so that there would be a significant psychological effect. As regards maximum heating standards in buildings (except living accommodation), he proposed compulsory rather than voluntary limits, making use of powers contained in the Fuel and Electricity (Control) Act; there were obvious difficulties of enforcement here but the same applied to many other possible measures and it was important to show a firm resolve. He also proposed to use statutory powers to prohibit floodlighting of buildings, statues, bridges and so on at all times (though he would not be restricting the use of floodlighting for sporting events), and to restrict electricity for external advertising and external display lighting during daylight hours; here again the amount of energy saved might be comparatively small but the psychological effect would be important.
As regards the rest of the package of measures, there was clearly a need to help firms, which at present had cash flow problems, by loans to finance energy saving investment. On the oil price increase, it was important to load as much as possible on to petrol, increasing the price of petrol by 8p to 10p a gallon, so as to reduce consumption and cut down on imports. The Property Services Agency (PSA) had done good work on energy saving but there was much more to be done, especially in the local authority field. In connection with his proposals for a massive Government publicity campaign on the more careful and efficient use of energy, he attached particular importance to co-ordinating the publicity programmes of the nationalised fuel industries. As regards the possibility of introducing a two-tier price system for petrol, with a basic ration available at one price and additional supplies at much higher prices, he sought the Cabinet's views on whether this should be included in the statement. Petrol rationing by coupon would be costly in terms of staff and administrative effort, needing something like 2,500 more civil servants, and would encourage the growth of a black market; two-tier pricing would be a better option, but it too would need extra staff to administer, and was likely to provoke a mass of claims for consideration of special cases. However, he would be happy to look at this possibility with the other Ministers concerned, and to put forward proposals in due course.

Finally, he felt it essential not to weaken in setting realistic prices for energy. All energy was now grossly underpriced, and financial discipline had been lost. It made no sense at all to increase demand for energy by subsidising prices, thereby increasing public expenditure and distorting the nationalised industries' investment programmes; this was the area where Government policy could have a really significant effect, not least in encouraging the proper use of each fuel for the right purpose.

In discussion, it was argued that the package of measures proposed by the Secretary of State fell far short of the needs of the situation. Against a background of the massive oil deficit and the efforts being made by other Governments to cut down on fuel imports and encourage the economical use of energy, the package would appear to consist of a number of more or less trivial items, and give the impression that the Government did not attach enough weight to the problem. The amount of energy being saved in Britain was actually going down in percentage terms, and we compared badly with other countries in Western Europe. From this point of view, it was essential to ensure the biggest possible psychological impact, so as to bring forcefully to the attention of the public the urgency of saving energy: two-tier pricing and a lower speed limit on the motorways should form parts of any serious package. If it was not yet possible to bring forward such measures, then the Secretary of State should at least announce a firm intention to introduce them soon.
On the other hand, it was pointed out that the statement was intended as one more instalment of energy saving measures and another package could be announced in the New Year. It would be wrong to state a firm intention to bring forward new measures before these had been properly considered and their implications fully assessed. For example, it was arguable that the best way to tackle the problem of petrol prices was to abolish or reduce the vehicle excise tax, and raise petrol prices to recover the same amount of revenue. There was also a risk that if the Government declared an intention to introduce some sort of rationing, whether by coupon or by pricing, there would once again be a rush to the garages by drivers eager to top up their tanks with petrol. It was unhelpful to favour saving energy as a general proposition, but to object to each particular proposal to achieve it. It was essential to make a very early statement on the next package of measures, because energy would be discussed at the meeting the following week of Heads of Government of the European Economic Community (EEC). From this point of view, the package proposed by the Secretary of State was broadly on the right lines, and included a number of well-thought-out and effective measures which would have considerable psychological impact.

In further discussion the following main points were made -

a. While it was essential to price energy properly, and in particular to discourage the wasteful use of petrol, it was important to remember that there were many people, for example those living in country areas, the disabled, and those working shifts at times when there was no public transport available, who were bound to use their own cars, and an excessive burden should not be placed on them.

b. It would be beneficial if the pricing system could be arranged to encourage the production of cars of smaller horsepower, and also to encourage the use of public transport, perhaps by attaching some season ticket value to the vehicle excise licence. On the other hand, the motor industry was already in great difficulties, and the side effects of any pricing policy would have to be considered carefully.

c. As regards speed limits, it was important not to reduce the 70 mph limit on motorways, so as to avoid the danger that cars would not be able to overtake heavy lorries; as regards the proposed maximum limits of 60 mph on dual carriageways and 50 mph on single carriageways, rigid enforcement would be difficult, especially of the latter limit, but they could be accepted by the police.
d. The statement could be made more positive by including examples of what had already been achieved, and was intended, in the Government service; for example, in the field covered by the Ministry of Defence it had been established that 10 per cent of oil fuel, and 6 per cent of other sources of energy, would be saved in 1975-76 compared to 1974-75, by means of careful economy.

e. Of the £5 million a year which it was proposed the PSA should spend over the next few years on improved control equipment and other energy saving measures, the Ministry of Defence might have to find a substantial proportion of the cost; the Secretary of State for Defence reserved his position on finding this contribution.

f. Since it was intended that the energy saving campaign should last for a number of years, it was questionable whether it would be appropriate to make use of powers under the Fuel and Electricity (Control) Act, which had to be renewed from year to year; it would be preferable if the Act could be replaced by powers taken under a permanent Bill. Moreover, powers under the Act seemed inadequate to enforce the proposed rules: for example, they did not include powers of entry. There seemed to be no intention to monitor the proposed heating standards, and it was doubtful who would be the responsible person for administering them. On the other hand, while it was wrong in principle to legislate for what could not be enforced, there was no harm in setting standards to which the community in general might reasonably be expected to conform.

g. The statement included a proposal that company annual reports should state the expenditure incurred on fuel and the steps taken to save energy; this should be extended to the reports of nationalised industries and public authorities.

h. The opening part of the statement should be strengthened by including a passage on the international setting: many countries now had energy saving programmes, and we would be playing our full part. The measures taken in 1973 had had an impact on Saudi Arabia and Kuwait, so that we might expect that the measures now to be announced would have some useful effect on Government opinion in the oil producing countries.
j. As regards the proposed ban on floodlighting of buildings, statues and bridges, this would cause a good deal of public gloom in exchange for a small saving in energy, and should not be proceeded with, at least in the middle of the winter; it was also important not to restrict the use of floodlighting in public places for reasons of security. As regards external advertising and external display during daylight hours, it was important to remember that in Scotland the New Year was a holiday period, and the proposed restrictions should not come into effect until the holiday was over.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that a statement on energy saving should be made the following Monday and that the draft proposed by the Secretary of State should form its basis. The first part should be redrafted to place the need for economy in its international setting and a passage should be included to illustrate the savings in fuel which could be achieved in Government establishments by positive economy measures. The statement should emphasise that this was an interim package of measures which would be followed by others; it should not however specifically refer to the possibility of tax changes, two-tier pricing or petrol rationing lest this lead to panic buying. It should also make it clear that while the Government were giving a lead and would run a major energy saving campaign, success would depend primarily on the efforts of individual businesses and households. The publicity campaign itself should be put in the charge of someone with the necessary flair; it should be aimed at import saving and wasteful use of energy and should avoid giving any impression that the Government anticipated industrial action by the mineworkers. Of the items which had been the subject of argument, the Cabinet agreed with the proposals on the lead content in petrol, on speed limits, and on imposing maximum heating standards on buildings other than living accommodation. On balance they were opposed to announcing at this time a ban on floodlighting of buildings, statues, bridges and so on, though this could be looked at again for possible inclusion in the next package of measures; as regards external advertising and external display lighting during daylight hours, these should not be restricted until after the Christmas and New Year holiday period.

The Cabinet -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.

2. Invited the Secretary of State for Energy to revise the draft statement on the lines indicated in the summing up, and to make the statement the following Monday.
3. Invited the Minister for Transport to make a short supplementary statement on the reductions in speed limits.

4. Invited the Secretary of State for Energy, in consultation with the Chancellor of the Exchequer and the other Ministers concerned, to continue with urgent consideration of further possible energy saving measures and to bring forward proposals for a further package in due course.
4. The Cabinet considered a memorandum by the Secretary of State for Employment (C(74) 142) on the anxieties expressed by newspaper editors about the provisions of the Trade Union and Labour Relations (Amendment) Bill.

THE SECRETARY OF STATE FOR EMPLOYMENT said that in his discussions with newspaper editors they had pressed for the Bill to be amended to put editorial staff in the same position as religious objectors. The reasons that they gave were, however, unconvincing and he believed that the general problem of potential conflict between professional ethics and union loyalty would not be helped by intruding the law. The right course was to reach sensible agreements in discussion between the parties. The National Union of Journalists (NUJ) shared this view and had just written to the employers and editors to propose a meeting. He thought that the meeting would take place. Although the closed shop and other union practices with a bearing on editorial independence came within the terms of reference of the Royal Commission on the Press he thought that it would be unwise to ask the Commission to produce an interim report on editorial independence; and the Chairman of the Commission had in fact told the Guild of British Newspaper Editors that the Commission did not wish to pronounce separately on these issues at this early stage of their deliberations. He invited the Cabinet to agree therefore that the Government should not introduce any amendments to the Bill directed to the position of editors; that he should take this line in the further meeting with the editors to which he was committed; and that the Royal Commission should not be asked for another interim report.

THE SECRETARY OF STATE FOR TRADE said that he accepted that it would be wrong to ask the Royal Commission to produce a quick report in time to influence the Parliamentary consideration of the Bill. The question of editorial freedom was a broader one that should not be considered only in relation to the trade unions. But he would not oppose a request to the Royal Commission to produce an interim report that would treat the issue in a general way.

THE PRIME MINISTER, summing up a short discussion, said that the Cabinet agreed with the proposals of the Secretary of State for Employment. In the Debate on the Bill the Government line should be that this question was being discussed between the parties concerned and it was to be hoped that they would find a solution. If the outcome of the discussion was that both sides wished the matter to be referred to the Royal Commission for an interim report, there would be no objection to doing so. After the meeting the situation should be reviewed by the appropriate Cabinet Committee before it came back to the Cabinet.
The Cabinet -

Took note with approval of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Employment to proceed accordingly.

5. THE CHANCELLOR OF THE EXCHEQUER said that he would like to report to the Cabinet the agreed conclusions of the Ministerial Committee on Economic Policy (EC) about the HS 146 aircraft project, which had been conceived by Hawker Siddeley Aviation (HSA) and jointly funded up to now by HSA and the Government; HSA were no longer willing to invest money in the planned programme. The HS 146 was a "feeder line" aircraft, intended as a replacement for aircraft such as the Viscount; the British content of the aircraft would be about 70 per cent by value, compared for example with 50 per cent British content in the Fokker 28, one of its main competitors. The short-term sales prospects were poor, because the economic recession and increased fuel costs had stopped the growth of civil air traffic and caused the airlines to put off buying new aircraft, and there was no means of saying when the market would revive again. The best estimate officials could make at present was that more than 500 aircraft would need to be sold to recover our investment, let alone make any sort of profit, but sales by the first half of the 1990's were unlikely to reach this level. To suspend the programme involved no major current employment problems, because out of the 2,750 people currently working on the project in Britain, only about 200 might actually be made redundant if the project were stopped, but these could probably be found other suitable work in Hawker Siddeley Dynamics (HSD). If the project were successful about 10,000 people might be employed on it by the 1980's in Britain, most of them skilled men. The present situation was that the workforce at HSA supported full continuance of the project, whereas the board of HSA believed that it was not now commercially viable; however, they were keeping the design drawings, jigs and tools, they intended to maintain a civil design capability on other projects, and they proposed to review the HS 146 in a couple of years' time, when a reassessment of the market might show that it was worth going ahead.

When the project was discussed by the Ministerial Committee, a very substantial majority had rejected the option of continuing the planned programme at full steam ahead with 100 per cent Government funding; this would have involved public expenditure of £120 million over the next three years, £70 million more than was
provided for in the Public Expenditure Survey. The Committee had also been opposed to spending money on production of two prototypes at Government expense. The Committee had come to the conclusion that on balance the right thing to do was to keep the project in cold storage for two or three years, at a cost of £2 or £3 million, so that the board of the nationalised aircraft industry would have the opportunity of reviewing the project in the light of its own general policy, and making recommendations to the Government in due course. In presenting this decision in public, we would make it clear that it was HSA's action in stopping work and cancelling sub-contracts which had created difficulties in the first place, so as to maintain our strong contractual position in case of any litigation to recover money from HSA. On the other hand we must plainly accept the offer which the HSA board had now made of tripartite talks with them and the trades unions. The Law Officers had given advice on how to do this without prejudice to our legal rights. He therefore proposed, on behalf of the Ministerial Committee, that the Secretary of State for Industry be authorised by the Cabinet to make a statement the following Monday and to enter discussions with both sides of HSA, making it clear that the Government were not prepared to take over the original programme on the basis of 100 per cent public funding, but that Ministers were ready to consider keeping the project in cold storage against the possibility that the market would improve again.

The view had also been expressed in the Ministerial Committee that it would be desirable to give the House as much information as possible about the reasons for the Government's decision, and that there might be advantage in giving to a Select Committee of the House the task of examining the programme of the aircraft industry, including civil and military projects. The Lord President of the Council would wish to consider this proposition carefully, in view of the obvious risk that an examination by a Select Committee might simply turn into lobbying on behalf of particular projects; but it would be helpful if the Secretary of State for Industry could include in his statement a passage to the effect that the Government recognised the need to give Parliament fuller opportunities to examine this kind of question.

In discussion, there was general agreement that the conclusion reached by the Ministerial Committee on the HS 146 project should be endorsed. As regards the ways in which Parliament might be given more opportunity to consider such projects, there were already Select Committees in being which could investigate aircraft projects if they wished to do so; the possible risks in setting up a Select Committee specifically to look at aircraft projects probably outweighed the advantages, but the Lord President of the Council and the other Ministers most concerned would need to consider the options
carefully. It would be an innovation to establish a Select Committee charged with looking at future policy of a nationalised industry; and whatever happened, it would be important to see that the membership of any Committee which examined aircraft projects included members concerned with due control of public expenditure.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the conclusion of the Ministerial Committee on Economic Policy, that the Government should not take over the original HS 146 programme on the basis of 100 per cent public funding, nor finance the construction of two prototypes, but should be ready to consider ways and means of keeping the project in cold storage, against the possibility that the market might improve again. The Secretary of State for Industry should make a statement the following Monday to this effect, and enter tripartite talks with both sides of HSA; in these talks it would be important to avoid prejudicing the Government's position in the case of any litigation to recover money from HSA, and so the talks should not touch on contractual matters, at least in the first stages. The statement could refer to the Government's readiness to provide the House of Commons with fuller opportunities for discussion of this type of project but reference should not be made specifically to a Select Committee. This proposal should be further considered by the Lord President of the Council in consultation with the Ministers most concerned.

The Cabinet -

1. Took note, with approval, of the summing up of their discussion by the Prime Minister.

2. Invited the Secretary of State for Industry, in consultation with the Lord President of the Council, to make a statement in Parliament the following Monday about the HS 146 project on the lines indicated in the summing up.

3. Invited the Lord President of the Council, in consultation with the Ministers most concerned, to consider the arguments for and against inviting an existing Select Committee, or establishing a new one, to examine the programme of the aircraft industry including civil and military aircraft projects.
6. The Cabinet considered memoranda by the Prime Minister on Ministerial salaries (C(74) 134) and on the report of the Top Salaries Review Body (C(74) 141). Their discussion and the conclusions reached are recorded separately.

7. THE SECRETARY OF STATE FOR SCOTLAND said that he wished to draw the attention of the Cabinet to the serious situation in Scottish schools, where the teachers were continuing their disruptive action in spite of the promise of an interim award of £100 to be paid on the publication of the Houghton Report. He would be meeting the Scottish Labour Members of Parliament the following day to discuss the situation.

   The Cabinet -

   Took note.

Cabinet Office

5 December 1974
NOTE

The circulation of these minutes has been restricted. Recipients are accordingly asked to ensure that the secrecy of their contents is strictly observed.
TOP SALARIES

The Cabinet considered memoranda by the Prime Minister on Ministerial salaries (C(74) 134) and on the report of the Top Salaries Review Body (TSRB) (C(74) 141).

THE PRIME MINISTER said that it had been suggested that in order to strengthen the social contract consideration should be given to a possible cut in Ministerial salaries as a way of giving a lead to other recipients of high salaries. In the past he had regarded cuts in Ministerial salaries as a meaningless gesture but in present circumstances he was inclined to see merit in them. The Government was committed to refer the remuneration of Members of Parliament to the TSRB for a review in January 1975. The normal course would be to ask the Review Body to consider Ministerial salaries at the same time. They needed now to decide between three courses -

i. To forgo a certain proportion of their salaries for a specified period and to refrain from referring Ministerial salaries to the Review Body.

ii. Not to reduce Ministerial salaries but not to refer them to the Review Body.

iii. Not to reduce Ministerial salaries, and to include them in the reference to the Review Body, retaining their freedom not to act, or to postpone action, on its recommendations.

The report of the TSRB on top salaries in the public services needed to be considered carefully. The Government could accept and implement it in full or by stages or could reject it and substitute smaller increases or no increases, or it could be used as a basis for inviting all high income earners in the private sector...
as well as the public sector to forgo part of their incomes for a period. The report showed that top people in the public sector were underpaid by comparison with their counterparts in industry, and it drew attention to the real problems of compression of differentials that had arisen in the public service and to the permanent effects on pensions which would result from any shortfall of salaries in the public sector. His own personal and preliminary opinion was that the TSRB recommendations on Civil Service pay should be accepted but that their implementation above a certain level should be staged. The staging might be carried out by asking those concerned to forgo voluntarily a part of their increase, while still preserving their full pension rights. The proposed increases for nationalised industry chairmen were, on the other hand, so large as to be provocative to the trades unions in those industries, and he suggested that the increases should be reduced, besides staging their implementation in the same way as for civil servants. Ministers could use cuts in their own salaries and the staging of the TSRB recommendations as a basis for an appeal for restraint at the higher income levels in the private sector.

In discussion it was argued that the average level of the increases recommended by the TSRB was 31 per cent, which was higher even than the level of the settlements so far reached outside the Trades Union Congress (TUC) guidelines. If the Cabinet agreed to this and also to the increase in National Health Service consultants’ pay, proposed by the Secretary of State for Social Services in C(74) 143, both increases would become known during the crucial negotiations on the pay of miners and electricity supply workers. Even the modified proposals put forward by the Prime Minister could prejudice those negotiations. It would be better to reject the TSRB report and to ask officials to work out an alternative system by which, for instance, the full increases might be given up to the level of £10,000 and a ceiling should be set at a higher level beyond which no increase at all would be given. Only by measures of this kind, together with a cut in Ministerial salaries, would it be possible to shame those who earned high salaries in the private sector into accepting their share of the necessary cuts in living standards.

On the other hand it was argued that if the TSRB proposals were taken together with the interim pay increases and spread over the period since the last substantive increase they could be shown to be within the TUC guidelines. It was furthermore argued strongly that the Government must fulfil its side of the bargain under which public servants surrendered some of their fundamental social rights in return for a system of pay determination by objective criteria. To attempt to apply a pay policy in the public sector
only would denude the public sector of talent, with results that must be unacceptable to a Socialist Government. Some public servants like the doctors were beginning to push for a return to collective bargaining. Many were becoming increasingly preoccupied with their pay. If the Government did not fulfil its side of the bargain, the drift of promising public servants into the private sector would increase; morale would suffer; and officials who now worked long hours without payment for overtime might even consider some form of industrial action. The idea of voluntarily forgoing remuneration was attractive at first sight but was open to objections: it would seem to pre-empt the report of the Royal Commission on Income Distribution and Wealth; an embarrassingly large proportion of civil servants might decline on principle to make the necessary sacrifice; it would be impossible under the present legislation to disregard this renunciation for the purpose of pension rights unless it were also disregarded for tax purposes, which would open up loopholes for evasion. The proposed increases for nationalised industry chairmen were harder to justify because the effect would be to increase their real earnings by comparison with 1969; but it must not be forgotten that the Government would need to recruit chairmen for new bodies such as the National Enterprise Board and the British National Oil Corporation.

THE PRIME MINISTER said that the Cabinet had not been able to resolve these important issues in the time available. He would see that they were placed high on the agenda for the next meeting.

The Cabinet -

Agreed to resume discussion of this item at their next meeting.

Cabinet Office

6 December 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 12 DECEMBER 1974
at 10.00 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services

The Rt Hon Peter Shore MP
Secretary of State for Trade

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon John Silkin MP
Minister for Planning and Local Government
ALSO PRESENT
The Rt Hon Edmund Dell MP
Paymaster General (Item 4)

SECRETARIAT
Sir John Hunt
Mr P D Nairne (Items 2 and 3)
Mr H F T Smith (Items 1 - 3)
Mr P Benner (Item 1)
Mr J A Hamilton (Item 4)
Mr R J O'Neill (Items 2 and 3)
Mr R L Baxter (Item 4)

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td>1</td>
</tr>
<tr>
<td></td>
<td>Debate on EEC Documents</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>FOREIGN AFFAIRS</td>
<td>3</td>
</tr>
<tr>
<td></td>
<td>Meeting of Heads of Government of the European Economic Community</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td>FUTURE HANDLING OF THE RENEGOTIATION OF THE TERMS OF BRITISH MEMBERSHIP</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>OF THE EUROPEAN ECONOMIC COMMUNITY</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td>TOP SALARIES</td>
<td>5</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. It might be desirable for the Prime Minister to speak in the Debate on the Report on Developments in the European Communities from March to October 1974, which was to take place on 19 December, since this would enable him to give a full report on the recent Summit discussions in Paris. The Lord President of the Council would consider urgently whether it would be within the rules of order to widen the Debate in this way.

It was reported that, following a recent decision by the Chair that it was in order for amendments to be put down to "take note" motions, there might be difficulties in the handling of the debates on European Economic Community (EEC) documents which were to take place on 18 and 19 December. As a result of this decision an occasion had arisen recently when an amendment critical of the document under discussion had been accepted and voted on; this situation was liable to recur, and might put Ministers in an invidious position, particular if the amendment were controversial and related to decisions which the Community had taken before our accession. It was desirable to find a method of handling these debates which would avoid the need for a vote in such cases. It was however pointed out that there would be difficulty in establishing a procedure which would apply automatically in all cases. Some debates might properly take place on a motion for the adjournment, which was not open to amendment - though even then the possibility could not be excluded that some Members might divide the House in order to record their opposition to the policy involved; and in that event a free vote might be considered. There were however other documents where a motion expressing approval would be appropriate; and advice on the procedure to be adopted would be needed in each individual case from the Department concerned.

THE PRIME MINISTER, summing up the discussion, said that there could be no general rule about the form of the motion and that an expression of approval might in some cases be appropriate. In the circumstances which had been described, there would be advantage in arranging for the debate to take place on a motion for the adjournment; it should not then be necessary for there to be a vote because acceptance of the motion would not imply any view about the substance of the document. The Lord President of the Council, in consultation with the Chief Whip, should explore this possibility urgently. An alternative course which should also be explored might be to seek to devise a motion which in effect said that the document was not one upon which Parliament should at this stage be called upon to express a firm conclusion one way or the other because
the issue was a part of renegotiation. This approach might be worth considering in relation to the debate on documents about the EEC draft budget which was to take place on 19 December.

The Cabinet -

Took note, with approval, of the Prime Minister’s summing up of their discussion.
2. THE PRIME MINISTER said that the most useful feature of the Meeting of Heads of Government of the European Economic Community (EEC) held in Paris on 9 and 10 December had been the discussions of major world issues, notably energy, the problems of recycling, inflation and the dangers of an international recession. It had been agreed that the French President should speak on their behalf to President Ford when they met next week in Martinique, conveying views which were closely in line with those agreed with the Chancellor of the Federal Republic when the latter was at Chequers on 1 December. Agreement had also been reached on the importance of those countries with a strong balance of payments to follow policies of reflating demand. Herr Schmidt had given the meeting a full account of the new economic measures which the German Government were about to introduce in the light of their serious unemployment problem. The Heads of Government had agreed on the importance of co-ordinating their positions so far as possible in future discussions of world economic problems.

As to more specific issues, the Heads of Government had agreed to request the Belgian Prime Minister, in a personal capacity, to prepare a study in the course of 1975 on the concept of European Union: Governments were in no way committed in advance to what this report might contain, and it would defer until after the process of renegotiation was completed institutional decisions which might create difficulties for the United Kingdom Government. On a number of other institutional issues set out in the Communique he had fully reserved the Government's position; he had made it plain that the United Kingdom's approach to all the conclusions in the Communique was governed by the commitments and objectives on renegotiation defined in the February Election Manifesto, which he had explained in detail. There had been a long and difficult discussion of the issue of the Community Budget; but, in spite of the initial intransigence of the French President, agreement had been reached on a formula acceptable to us instructing the Council of Ministers and the Commission to take account of the United Kingdom's suggestions and establish as soon as possible the corrective mechanism we sought. Agreement had also been reached on the establishment of a Regional Development Fund, for three years only, from which the United Kingdom would draw a 28 per cent share. The Communique referred briefly to the objective of the eventual establishment of an Economic and Monetary Union; but it had been agreed between the Heads of Government in discussion that this was not a realistic goal in the foreseeable future, and the reference to it in the Communique should be seen in the same light as the commitment to "general and complete disarmament" to which Governments were always ready to subscribe.
In discussion it was suggested that certain passages in the Communique appeared to commit the Government on a number of issues in terms which were incompatible with the February Election Manifesto and would weaken the credibility of the Government's approach to renegotiation. This was notably the case in respect of the agreement recorded in the Communique in relation to majority voting and the Luxembourg Agreement of 1966, to the election of the European Assembly by universal suffrage, and to the reaffirmation of the 1972 Paris Summit commitment to Economic and Monetary Union. The firm retention of the power of veto was essential to the preservation of the sovereignty of the United Kingdom Parliament and represented a crucial safeguard against the EEC overriding the powers of both the Government and Parliament. It was argued that the concept of Ministerial responsibility was further threatened by the agreement recorded as regards greater latitude to Permanent Representatives: this would increase the powers of officials at the expense of the Council of Ministers. Direct elections to the European Assembly would further strengthen that body and thus weaken the position of the United Kingdom Parliament. The terms of the Communique in respect of Economic and Monetary Union, however the concept might be regarded in practice, were directly at variance with the terms of the Government's February Election Manifesto.

On the other hand it was argued that it was clear that as regards majority voting the terms of the Communique amounted to no more than an appeal that the power of veto should be exercised in future by Governments with reference to real issues of vital national interest. Governments would remain free to decide which those issues were, and there had been no weakening whatever in the veto power essential to the United Kingdom position. Our position had also been expressly reserved on the question of direct elections to the European Assembly; and on that basis we were in no position to object to the approval of other Governments to the question of direct elections to the Assembly. It was fully clear that no country regarded Economic and Monetary Union in practice as anything other than an ideal but distant goal. The status of Permanent Representatives would be unchanged by the decision to remit more detailed decisions to them: they would continue to be Ambassadors acting on the instructions of Ministers and Governments. Furthermore the passages in the Communique recording the views of the nine Governments on unemployment and inflation were entirely in line with the views of the Government: it was a substantial achievement by the Prime Minister and the Foreign and Commonwealth Secretary to have secured general endorsement by EEC Governments of this important element in the Government's policy.
THE PRIME MINISTER said that in agreeing to the terms of the Communique the Foreign and Commonwealth Secretary and he had not in any way jeopardised our national interests or any aspect of Government renegotiation policy as set out in the Election Manifesto. All the points on which agreement at the Summit was recorded should be read in the light of paragraph 34 of the Communique, which placed on record that he had explained to the other Heads of Government, along the lines of the public speech he had made on 7 December, the basis on which the Government approached renegotiation and the particular issues to which the Government attached the highest importance. Throughout the Summit discussions he had adhered strictly to the terms of the Manifesto. In particular, the power of the Government to use the veto when necessary in the Community remained unimpaired; one example of potential use was the question of lorry axle weights, but it could be used, if the Government wished, in relation to any of the policy questions which might arise in future from the conclusions of the Summit meeting or from other areas of Community business.

The Cabinet -

Took note.

3. The Cabinet discussed the question of their approach to the future handling of the renegotiation of the terms of membership of the European Economic Community (EEC), in the light of the outcome of the meeting of Heads of Government in Paris. The discussion and the conclusions reached are recorded separately.

4. The Cabinet resumed their consideration of Top Salaries. Their discussion and the conclusions reached are recorded separately.
CC(74) 51st Conclusions, Minute 3
Thursday, 12 December 1974 at 10.00 am

The Cabinet discussed the question of their approach to the future handling of the renegotiation of the terms of membership of the European Economic Community (EEC), in the light of the outcome of the meeting of Heads of Government in Paris.

The Secretary of State for Employment said that an issue of major importance arose from their discussion of the Summit communique. Some members of the Cabinet felt that its terms suggested that agreement had been reached on issues which had not been the subject of collective consideration by the whole Cabinet, and about which he personally had considerable reservations. In anticipation of a situation of this kind, he and two other members of the Cabinet had recently put to the Prime Minister a suggestion about how the doctrine of collective responsibility might best be applied in the later stages of the renegotiation. To attempt to maintain complete Cabinet unity on all the issues which might arise could prove impossible and the attempt could be damaging to the Government. The only solution might be to reach some understanding (for which there was a precedent) on the basis of an "agreement to differ" on this single issue and for a limited period. There was now the need for early collective discussion of the issues raised by the Government's commitment to consult the British people once renegotiation was completed. Members of the Cabinet would need then to be free to give their own judgment of the results of renegotiation, and it was arguable that they should now be free to give their own interpretation of the relevant parts of the February Manifesto.
THE PRIME MINISTER, summing up a brief discussion, said that all members of the Government were bound by the passages on renegotiation in the two Manifestos on which the Government had been elected: and in the public speech which he had made on 7 December he had stated clearly his own position on the basis of the Manifesto terms. The collective responsibility of the Government must be maintained on issues arising both in the course of renegotiation and in the continuing work of the EEC during that period. He would arrange for a discussion early in the New Year of the issues arising from the pledge to give the British people the final say through the ballot box, and this would provide an opportunity for discussion of the position which members of the Cabinet might adopt when the results of renegotiation were clear.

The Cabinet -

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

Cabinet Office

12 December 1974
The Cabinet resumed their consideration of memoranda by the Prime Minister on Ministerial salaries (C(74) 134) and on the report of the Top Salaries Review Body (TSRB) (C(74) 141). They also considered a memorandum by the Secretary of State for Employment (C(74) 145) on top salaries and the social contract.

The Secretary of State for Employment said that if the Cabinet approved increases of 30 to 40 per cent for the TSRB posts and the hospital consultants they would increase immensely their own and the Trades Union Congress's (TUC) difficulties in sustaining the social contract. The proposals could not be reconciled with the TUC pay guidelines. It did not help to argue that the TSRB groups would be recouping their position since 1969; other groups such as the electricity power workers would seek to recoup their losses over the period of statutory control. The miners would not be slow to draw the moral. When the miners' claim had been discussed at the Economic Committee of the General Council of the TUC the previous day the Committee had agreed to take a hard line on that claim provided all other cases were to be judged by the same standards. The TSRB report had been mentioned in that connection, and the General Secretary of the TUC had said afterwards unattributably at a Press conference that an excessive increase for the TSRB group could be as damaging to the social contract as any other.

He proposed therefore that the TSRB report should be rejected. They should allow a sufficient increase to those earning less than £10,000 to deal with problems of differentials but should give no increase to those above £10,000. They should invite all those in the public and private sectors with incomes of £10,000 or more to forego any increase in their incomes in 1975. At the same time, in order to achieve the necessary public effect, the members of the Cabinet must accept a cut in their own salaries. If the Cabinet accepted the principles of this approach they should ask officials for detailed proposals for its application.
In discussion it was argued that the rate of inflation in 1975 was likely to exceed the current rate of 17 per cent. Commodity prices had failed to ease and food prices continued to go up. The continuing fall in the sterling exchange rate added daily to the dangers. It was clear now that even if the TUC guidelines on pay were fully observed, inflation would continue and that the danger of runaway inflation was increasing. This bore severely on the groups covered by the TSRB report who had already suffered a severe drop in real incomes. On the other hand this was a time for extreme measures and some unfairness to individuals would have to be accepted. It was argued however that what was needed was something more comprehensive and egalitarian than the proposals of the Secretary of State for Employment. The Government should have a maximum incomes policy. Either this should follow the recommendations of the Royal Commission on the Distribution of Income and Wealth, who should be asked to produce an early report, and should be implemented through personal taxation; or there could be a case for a more unconventional approach and more radical remedies. But a discriminatory policy, directed only against the public sector, would be greatly resented by those concerned and would fail to carry conviction with the public. It would also be quite inconsistent with what the Government had said when in Opposition.

In further discussion the following points were made:

a. Although it was illogical to propose a cut in Ministerial salaries while only deferring increases in public service salaries, a gesture of this sort was needed to carry conviction with the private sector. Against this it was argued that a similar measure had had no noticeable effect in 1964. At best the effects of a cut would be short-lived. If Ministers accepted a freeze in their salaries this would amount to a major erosion in their real purchasing power which had already declined by 40 per cent over two years. By accepting a freeze now they would retain the possibility of a cut later if it seemed necessary.

b. Some trades unions, such as the Electrical Power Engineers' Association, accepted that the management structure of the nationalised industries had been artificially depressed in recent years. It was important to attract good managers, and a chairman for the proposed British National Oil Corporation would be likely to require a higher salary than any in the Boyle report. On the other hand the attitude of the National Union of Mineworkers was crucial. The salary increases proposed in the Boyle report for some of the nationalised industry chairmen whose salaries were high already would be particularly difficult to justify to the low paid workers in their industries.
c. It was argued that the TSRB recommendations for civil servants should also be rejected and an index-related increase substituted. On the other hand it was pointed out that the size of the proposed increases in Civil Service salaries was the result of past restraint for which civil servants should not be penalised. To avoid building up such difficulties for the future the TSRB review should be annual. The Government should honour their express commitment to preserve the principle of fair comparisons for Civil Service pay. If they abandoned this principle they would undermine the whole pay structure of the Civil Service and give encouragement to the Civil Service militants who would like their salaries to be determined by free collective bargaining backed by industrial action. Some of the increases proposed at the top of the scale were however open to objection, though less so than the proposals for nationalised industry chairmen. While accepting the Boyle recommendations in principle the Government could stage their implementation and the process of staging could be applied most severely at the top levels. An appeal for voluntary staging might give good results, but because individual circumstances differed, some would have more difficulty than others in complying and this could cause resentment. The process of implementing voluntary cuts would be likely to attract continued publicity, which was the reverse of the Government's intentions. For these reasons it was argued that the staging of the increases had better be imposed compulsorily. The Civil Service would probably accept this provided that future reviews were annual and that provision was made for the preservation of pension rights.

d. An appeal to the private sector for voluntary restraint, though worth making, could have at best only temporary effects. It should be accompanied by an urgent reference to the Royal Commission on Income Distribution and Wealth, who should be asked to report by March 1975. At the same time the Government should consider what measures could be taken outside the system of personal taxation. One possibility might be to disallow, for the purpose of corporation tax, all expenditure on incomes above £10,000 a year; anything above that level would then become a donation to be financed out of taxed profits. Another possibility might be for the Government to use the influence that it derived from its position of shareholder or paymaster to so many private industries and public authorities.
THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that this was not the time for a cut in Ministerial salaries but that, after including them in the reference to the TSRB, Cabinet Ministers should accept a freeze in their salaries for the year 1975. On balance they agreed that, subject to certain changes, the present TSRB report for the public sector should be accepted. The recommendations could not however be fully implemented immediately. The deferments should be compulsory rather than voluntary, and there should be full preservation of pension rights. Some of the details of staging needed further consideration however. Up to the new salary level of £15,000 the Cabinet agreed to give him discretion whether to implement the TSRB recommendations in full or to impose some deferment at the upper levels, bearing in mind the need to preserve differentials. For salaries on present rates of less than £15,000 and TSRB recommended rates of more than £15,000 the recommendations would be implemented in full, but half the difference between £15,000 and the new rates would be deferred for a year. For salaries on present and recommended rates of more than £15,000 the TSRB recommendations would be implemented in two equal stages over a year. The recommendations for nationalised industry chairmen were not accepted; the chairmen should each receive a maximum increase of £5,900 from the due date. The TSRB would be asked in future to carry out their reviews annually but the first annual review should not be until after the end of the staging. At the same time the Government should appeal to the private sector to observe similar restraint in increasing high salaries; they should ask for an urgent and comprehensive report from the Royal Commission on Income Distribution and Wealth on the levels of salaries at the top; and the Government should state publicly that they were meanwhile considering ways of dealing with increases in high salaries in the private sector.

The Cabinet -

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

Cabinet Office

13 December 1974
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
THURSDAY 19 DECEMBER 1974
at 9.30 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment

The Rt Hon Eric Varley MP
Secretary of State for Energy

The Rt Hon Barbara Castle MP
Secretary of State for Social Services (Items 1-4)

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon William Ross MP
Secretary of State for Scotland

The Rt Hon James Callaghan MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Industry

The Rt Hon Reginald Prentice MP
Secretary of State for Education and Science

The Rt Hon John Morris QC MP
Secretary of State for Wales
The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon Fred-Parle MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon John Silkin MP
Minister for Planning and Local Government

ALSO PRESENT
The Rt Hon Edmund Dell MP
Paymaster General

SECRETARIAT
Sir John Hunt (Items 1 and 3-6)
Mr P D Nairne (Item 3)
Mr H F T Smith (Item 3)
Mr P Benner (Item 1)
Mr J A Hamilton (Items 4 - 6)
Mr E J G Smith (Item 3)
Mr R L Baxter (Items 1 and 4-6).

CONTENTS

<table>
<thead>
<tr>
<th>Item</th>
<th>Subject</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>PARLIAMENTARY AFFAIRS</td>
<td>1</td>
</tr>
<tr>
<td>2.</td>
<td>TOP SALARIES</td>
<td>1</td>
</tr>
<tr>
<td>3.</td>
<td>FOREIGN AFFAIRS</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Rhodesia</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>North Atlantic Treaty Organisation</td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>Meeting between the Presidents of the United States and France</td>
<td>3</td>
</tr>
<tr>
<td>4.</td>
<td>PAY OF THE NATIONAL HEALTH SERVICE CONSULTANTS</td>
<td>4</td>
</tr>
<tr>
<td>5.</td>
<td>HOUGHTON REPORT ON TEACHERS' PAY</td>
<td>7</td>
</tr>
<tr>
<td>6.</td>
<td>THE PRICE CODE</td>
<td>8</td>
</tr>
</tbody>
</table>
1. The Cabinet were informed of the business to be taken in the House of Commons during the week following the Recess. It was intended that the Debate on the Report of the O'Brien Committee on the Export of Live Animals, which was planned for 16 January 1975, should take place on the basis of a substantive Motion upon which there would be a free vote.

2. The Cabinet resumed their consideration of memoranda by the Prime Minister (C(74) 134 and 141) and by the Secretary of State for Employment (C(74) 145). The conclusions reached are recorded separately.
3. THE FOREIGN AND COMMONWEALTH SECRETARY said that on 11 December Mr Ian Smith, the leader of the illegal regime, had announced that in return for a cessation of guerilla activity he would release the Rhodesian African leaders and their followers who were held in detention, and would allow them to engage in political activity in preparation for a constitutional conference. A de facto cease-fire appeared to be in force; the African leaders had been freed; but many of the detainees had not yet been released. There was no evidence that the positions of the African leaders and Mr Smith were coming closer on the objectives of a constitutional conference. The political outlook remained obscure. There was also disagreement on where the conference should be held: the Africans wanted it to be in London under United Kingdom chairmanship. He did not wish to become involved prematurely in these exchanges. We should for the present leave it to the Africans and the white Rhodesians to make the running. It would be important to have a clear idea of Mr Smith's intentions before agreeing to hold a constitutional conference here. He himself had received indications that the South African Prime Minister, Mr Vorster, would like to meet him. In view of the major role which Mr Vorster had assumed in pushing Mr Smith towards an accommodation with the Africans, a meeting might prove useful. But before agreeing to one he would wish to discuss the matter with President Kaunda of Zambia in the course of his own forthcoming tour of African countries. If President Kaunda was in favour, and judged that a meeting would not be offensive to African opinion in present circumstances, he might, unless his colleagues saw objection, arrange to make one while he was in Africa, possibly on the borders of Botswana.

The Cabinet -

1. Took note of the statement by the Foreign and Commonwealth Secretary.
It had also been agreed that there was now a prospect of achieving an acceptable outcome of the Conference of Security and Co-operation in Europe by the spring and that it might be found appropriate to hold a summit meeting of Heads of Government to mark this in the early summer. The Western countries were however continuing to press the Soviet Union on a number of issues. He and Dr Kissinger had formed the impression from their separate discussions with the Greek and Turkish Foreign Ministers, that there was some prospect of the Greeks and Turks entering into discussions about Cyprus on a broader political basis than had so far been possible. Discussions between the representatives of the Greek Cypriot and Turkish Cypriot communities might also develop accordingly.

THE SECRETARY OF STATE FOR DEFENCE said that in the NATO Meetings the American Defence Secretary, Dr Schlesinger, had spoken strongly about the danger of defence cuts, although in private conversation he had shown understanding of our approach to our defence review.

The Cabinet –

2. Took note of the statements by the Foreign and Commonwealth Secretary and the Secretary of State for Defence.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the American Secretary of State, Dr Kissinger, had sent him an appraisal of the recent meeting in Martinique between President Giscard d'Estaing of France and President Ford of the United States. Dr Kissinger's anxieties in advance of the meeting had not been realised. On energy in particular he was now less worried about the divergence between the American and French positions. President Ford had not pressed the French to join the International Energy Agency, but he had stood firm on the need to maintain consumer co-operation, and progress on this had been made a pre-condition for the holding of the proposed consumer/producer conference. The meeting with the producers, as advocated by the French, would probably take place by next summer. On energy matters and on the related issue of the re-cycling of the surplus funds of the oil producers, as on international matters generally, there was likely to continue to be very close contact between the United States' Administration and ourselves.
4. The Cabinet considered memoranda by the Secretary of State for Social Services (C(74) 143 and 147) on the pay of National Health Service (NHS) consultants together with memoranda by the Chancellor of the Exchequer (C(74) 144) and the Secretary of State for Employment (C(74) 145) on the same subject.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that it was important to reach a decision on the principle of the new contracts for NHS consultants before she met the doctors the following day. Unofficial industrial action had already begun because of the delay in deciding this question. The question of the new type of contract was separate from the question of costing. The pricing of the contract would be determined by the Doctors' and Dentists' Review Body (DDRB); after the DDRB had made recommendations it would be open to the Cabinet to reject or amend or stage them in the same way as the recommendations of the Top Salaries Review Body (TSRB). The point to be decided now was the form of the new contract. The existing contract was out of date and unfair and constituted a long-standing grievance among consultants. When the Labour Government came into office she had set up a joint working party with the consultants to consider it and she had ensured that the terms of reference included the phasing out of private beds from the NHS. Discussions had been difficult and without commitment on the Government side. Under the existing contracts those consultants who did not commit themselves wholly to the NHS were allowed to do private practice in return for a reduction in pay, which under the maximum part-time contract of 11 sessions amounted to 2/11ths. There was no means of policing the extent to which the part-timer discharged his obligations. Some that had private practices subordinated their NHS patients to their private ones. Others worked long hours beyond their commitment without additional reward. For this open-ended system the Government proposed to substitute a new contract carrying a firm obligation to work for a definite number of sessions; normally 10 four-hour sessions a week. In addition, £10 million that was currently distributed secretly in the form of distinction awards would be diverted into 2 new supplementary payments to reward particularly useful or unpopular work. The latter proposal was a point of controversy; and the consultants were pressing for additional payments of various kinds which she proposed to resist. She believed that the offer of a new contract on the lines she proposed would give the only hope of meeting the profession, remedying a genuine grievance of consultants in disadvantaged areas and encouraging a more equal distribution of talent. It had been objected that the new contract would give additional money for the same work. This was not so; the Government would get extra work for the same money, since consultants who undertook 10 sessions would be obliged to attend throughout. The additional cost would arise out of the payment for extra sessions beyond the 10.
Neither the general practitioners nor the junior doctors had a similar case for a major pay restructuring. Payment for extra sessions might be represented as a kind of overtime for a highly paid group, but the extra sessions would be identified and contracted for in advance as part of each consultant's individual contract; that was a unique feature, unlikely to be paralleled elsewhere. The next general review of doctors' pay was due in April 1975. An interim report was expected later that day which probably would not recommend any breach of the 12 month rule but would make it clear that doctors and dentists had fallen behind. Some increase in doctors' pay was therefore to be expected in any case. The alternatives were to reject the new contracts and ask the DDRB to base their review on the existing contracts, or to accept the new contracts in principle and ask the DDRB to use them as the basis of their review. If the Cabinet chose the first alternative there could be no hope of avoiding a breakdown. The consultants would be likely to carry out their threat of setting up agencies from which they would offer their services back to hospitals at arbitrary rates after resigning from the NHS; they would have public sympathy. If on the other hand the Cabinet accepted the new contracts in principle she would seek Cabinet approval for her departmental evidence to the DDRB and after the DDRB reported it would be for the Cabinet to take the final decision on the implementation of their recommendations. The salary levels for consultants were not in fact very high. Only about 2,000 of them were drawing more than £10,000 a year from the NHS. Whatever the DDRB recommended there need be no conflict with the decisions of the Government on the recommendations of the TSRB. If curbs were to be applied to consultants' increases she might be obliged to postpone the start of phasing out pay beds until 1976-77, but in the meantime she would propose to introduce the necessary legislation as quickly as possible.

In discussion it was argued that the consultants, who were in a strong negotiating position, might demand a commitment on their new salary levels before they would agree to the new contracts; they might also demand a guarantee that the Government would give no ex parte evidence to the DDRB. These demands must be resisted. It would be desirable to remove some of the more repercussive elements from the new contracts. If possible the total cost of the restructuring together with the 1975 pay review must be brought down from the estimated figure of 35 per cent or 38 per cent to a figure of about 25 per cent that could be presented as being within the social contract. The doctors might be warned that if the recommendations of the DDRB fell outside the Trades Union Congress guidelines they would have to be staged; this line would be easier to hold if similar measures were being applied to other high paid sections of the community. If the consultants broke off negotiations on this issue they would get less sympathy than if the Government had refused to accept the principle of the new contracts.
In further discussion it was argued that it was not enough to offer £5 million towards the cost from offsetting reductions in expenditure within the health programme. The cost of restructuring the contracts had been estimated at £17 million a year and there would be a further cost of at least £20 million a year arising from phasing out pay beds. The Cabinet would have to take their decision later on the timing of the action on pay beds and the cost of that might be disregarded for the present; but a contribution of £5 million towards the cost of the new contracts still appeared insufficient.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed in principle that the Secretary of State for Social Services could offer new contracts of the kind that she proposed, on the clear basis that the Government was not committed as regards the cost and would reserve the right to give ex parte evidence to the DDRB and to modify the DDRB's recommendations in the light of the economic situation at the time. Her evidence to the DDRB should be cleared with the Cabinet and they should be consulted again when the DDRB had made its recommendations about pricing. It would be helpful if the Department of Employment were represented at the discussions with the doctors. That part of the cost of the new contracts that could be shown to be due to the normal review of remuneration by the DDRB should not be treated as an increase in real terms. The rest represented the cost of restructuring. The question of the source of the additional expenditure should be discussed on that basis between the Department of Health and Social Security and the Treasury. In terms of public expenditure the phasing out of pay beds should be left aside for the time being, as the timing of that measure would need to be considered by the Cabinet in the light of the progress on the new contracts. Until then no legislation for the purpose should be included in the legislative programme.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Social Services to proceed accordingly.
5. THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that the report of the Houghton Committee on the pay of non-university teachers had been discussed the previous day in the Sub-Committee on Pay Negotiations of the Ministerial Committee on Economic Policy. The Houghton Committee had undertaken a complete review of the teaching profession in England, Scotland and Wales. They had done excellent work. They confirmed that the pay of teachers had fallen behind and that it was right to treat them as a special case. The recommendations would add an average of 29 per cent to the salary bill as it was in May 1974 after the last general increase but before the threshold payments; this addition would be without prejudice to the next settlement due in April 1975. The recommendations were weighted in favour of the more experienced teachers. The increases would range from 16 per cent for the teacher on the minimum rate to 44 per cent for the Principal of a Polytechnic. The total cost was estimated by the Committee at £340 million in 1974-75 but would rise eventually to £432 million a year. The Sub-Committee had agreed to statements to be made by him and the Secretary of State for Scotland welcoming the report, accepting its implications for public expenditure and referring the recommendations to the negotiating bodies. The Government was committed to accept a settlement within the total recommended by the Committee, though they should insist that the total must not be exceeded. As regards the distribution of the money, the Government lacked the final power, but they would exercise their influence in the negotiating bodies towards the full acceptance of the Houghton recommendations, so as to stop the drift of experienced teachers out of the profession.

THE SECRETARY OF STATE FOR SCOTLAND said that the report would not receive any general welcome in Scotland. Although it gave Scottish primary teachers parity with their counterparts in England it would hardly begin to meet the expectations of the lower paid groups. His influence in the Scottish negotiating committees might not be sufficient to procure the full implementation of the recommendations though he would try to keep the deviations to a minimum and would in any case ensure that the total recommended expenditure was not exceeded. Meanwhile disruption would continue. Not even an interim increase of £150 would necessarily end it.

THE PAYMASTER GENERAL said that, although the Government were committed to accept the financial implications of the Houghton report, the total cost was greater than had been expected. The Treasury would wish now, in consultation with the education departments, to re-examine the plans for increasing the number of teachers.

The Cabinet -
Took note.
6. THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION said that, as a result of the process of consultation which followed their last discussion of the Price Code, she had made certain changes to the proposals in the Consultative Document. In reducing the productivity deduction to 20 per cent there would be a transitional deduction of 35 per cent for labour cost increases incurred between the date of the last price increase and 1 November 1974. The 'safeguard for manufacturers' profit margins on products would be set at 70 per cent with the option of using the existing safeguard. The safeguard for distributors' net profit margins would be increased from 75 per cent to 80 per cent, while leaving the gross profit margin limit at 105 per cent. The retrospective recovery of cost increases would not be allowed before 1 November 1973 in either the private or the public sector.

The Cabinet -

Took note.

Cabinet Office

19 December 1974
The Cabinet resumed their consideration of memoranda by the
Prime Minister (C(74) 134 and 141) and by the Secretary of
State for Employment (C(74) 145).

This discussion was not recorded.

The Cabinet -

1. Confirmed the decisions taken at its previous
   meeting in relation to the higher Civil Service, the
   senior officers of the Armed Forces, and the judiciary.

2. Invited the Secretary of State for Employment
   to arrange for work on the reference on high incomes
   to the Royal Commission on Income Distribution and
   Wealth to be accelerated so that the report was
   submitted within the next few months.

3. Invited the Chancellor of the Exchequer and the
   Secretary of State for Employment to consider by
   what means limits could be set to the absolute amounts
   of high incomes in the private sector and increases in
   those incomes, if such measures were to be required.

4. Agreed that no action should be taken on the
   Review Body's recommendations in respect of chairman
   and board members of nationalised industries until the
   Royal Commission on Income Distribution and Wealth
   had reported; this would permit further consideration
   of this group of salaries, taking account of the Royal
   Commission's report.

5. Took note that the Prime Minister would inform
   the General Secretary of the Trades Union Congress of the
   Government's decisions later in the day, with a view to
   announcing them the following day.

Cabinet Office
19 December 1974