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Cabinet Office,
January 1976.

SECRET
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 9 JANUARY 1975 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 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 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 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 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 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

**SECRETARIAT**

Sir John Hunt
Mr P Benner (Item 1)
Mr J A Hamilton (Item 2)
Mr E J G Smith (Items 3 and 4)
Mr J Peters (Item 2)
Mr N Summers (Item 1)

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Debate on EEC Documents
1. The Cabinet considered a memorandum by the Paymaster General (C(75) 1) about the proposal for a Special Family Allowance (Special FAM).

THE PAYMASTER GENERAL recalled that the Secretary of State for Social Services had during the Cabinet's recent discussion of public expenditure proposed the extension in 1976-77 of family allowances to the first child of one-parent families. At the Cabinet's request, this proposal had been examined further by the Committee on Poverty, and his memorandum set out the facts and arguments relating to it. Special FAM was proposed for 1976-77 only, and would be absorbed into the Child Benefits scheme which was to be introduced in April 1977. It would accrue to rather more than half of one-parent families, the largest groups to be helped being those who neither drew Family Income Supplement (FIS) nor paid income tax, who would receive £1.50 a week; and those who did not receive FIS but paid income tax, who would receive 67p a week. The former numbered perhaps 40,000-45,000, and the latter about 200,000. The Committee on Poverty had identified the main arguments for and against introducing Special FAM; but the conclusions to which they led were matters of political judgment. The Treasury had argued that it might in practice not be possible to absorb Special FAM into the Child Benefits scheme in 1977; the additional cost of a continued separate benefit for one-parent families might be between £13 million and £43 million. Alternatively it was arguable that, in order to secure its absorption, it would be necessary to introduce Child Benefits at a level higher than £2.16 (the rate assumed for the public expenditure programmes which had recently been approved by the Cabinet), since if account were taken both of Special FAM and of the child tax allowance, some of the beneficiaries would already be receiving a net benefit equivalent to £2.20 a week; and if there were pressure to maintain not just the monetary but also the real value, the initial rate of Child Benefit might be as much as £2.50, which would add about £100 million a year to the cost of the scheme. The Department of Health and Social Security had however taken the view that Special FAM could be absorbed into the Child Benefits scheme without carrying any implication for the level of benefit, on which the Cabinet would be entirely free to decide when the time came.

In discussion it was argued that it was not clear that the needs of one-parent families were more pressing than those of some other vulnerable social groups, for example the homeless. Nearly half of one-parent families would not benefit from Special FAM; not all one-parent families were among the poorest, and some two-parent families' needs were greater than the needs of those who would benefit from Special FAM. Moreover it would be quite wrong in present economic circumstances for the Government to commit themselves to a measure which carried with it an identifiable risk of repercussions.
which could add as much as £100 million a year to the cost of the Child Benefits scheme. And the presentational advantages of the proposal by the Secretary of State for Social Services would be considerably reduced by the recent unfortunate leakage to the Press of information about the Government's decision to defer introduction of the Child Benefits scheme from 1976 to 1977.

On the other hand it was argued that there was strong evidence that one-parent families, whose needs had been highlighted by the Finer Report, were a group seriously at risk; the cost of Special FAM in 1976-77 would be modest, and it would be the only benefit provided for this group, the Government having rejected the Finer Committee's proposal for a Guaranteed Maintenance Allowance for all one-parent families. It should not be too difficult to resist pressure for a permanent benefit for one-parent families; and there was no reason why the proposals should lead to any increase in pressure for a higher introductory rate of Child Benefit, bearing in mind that, in respect of all children other than the first, assimilation to the new scheme would be related to rates of family allowance which had been fixed two years previously, in 1975. The announcement of Special FAM would moreover undoubtedly help to mitigate the unfavourable response to the Government's decision, which would have to be announced soon, to defer until 1977 the introduction of the Child Benefits scheme, of which it would be presented as a small advance instalment. There might however be advantage in considering whether the announcement about Special FAM could be timed so that it would form part of any package of budgetary or counter-inflationary measures which the Government might need to take in the near future.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed in principle to the proposal for the payment of Special FAM in 1976-77 in respect of the first children of one-parent families, on the strict understanding that it would not later be used as an argument for setting the rate for Child Benefit higher than the level envisaged during the Cabinet's recent discussions of public expenditure. The Secretary of State for Social Services was now free to go ahead with confidential preparations for the scheme within her Department. She should discuss with the Lord President of the Council the most appropriate legislative vehicle for it, and the latter should inform him of the conclusions reached. Subsequent consideration should be given to the timing of the announcement of the Government's decision on Special FAM so that it could form part of any package of budgetary or counter-inflationary measures which might shortly become necessary.

The Cabinet -

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

2
2. The Cabinet considered memoranda by the Minister for Planning and Local Government (C(75) 4) and by the Central Policy Review Staff (CPRS) (C(75) 2) about the means of tackling the abuses of the Lump in the construction industry.

THE CHANCELLOR OF THE EXCHEQUER said that the Ministerial Committee on Economic Policy (EC) under his chairmanship had discussed this problem a number of times. The Queen’s Speech said "proposals will be brought forward to tackle the abuses of the Lump as a step towards creating a stable work force in the construction industry". EC had examined two main alternative sets of proposals, one by the Minister for Planning and Local Government, and one by the Paymaster General: broadly, the former proposed a public register of sub-contractors and a penal levy on main contractors who used unregistered labour, while the latter proposed to tighten up the existing tax deduction scheme. On balance, the majority of EC favoured the Minister's scheme, but there were two very important consequences of that scheme which the Cabinet should consider: the first concerned the position of the genuine self-employed sub-contractor who met his obligations, the second concerned the penal levy which was part of the scheme. Under the Minister’s scheme, a self-employed tradesman who worked for a private client would not be affected, but there was no safeguard for a self-employed man who worked as a sub-contractor, unless of course he evaded his tax and insurance obligations by improper means. It seemed wrong to EC that to employ such men should involve the main contractor in penal sanctions far outstripping (when combined with the existing tax deduction) normal liability to tax and national insurance payments. To devise a safeguard might well be difficult, if not impossible, as the CPRS paper explained; the Minister therefore proposed in C(75) 4 that genuine self-employed men should have a period of grace during which to become employers or employees; the levy would not bite in this period.

The second major point of principle arose on the proposed penal levy on the main contractor of up to 40 per cent. Under the Minister’s scheme, this levy would be additional to the existing tax deduction of 30 per cent already made by any main contractor who engaged a non-certificated sub-contractor. The combined deduction of 70 per cent, in the view of the Inland Revenue, would be so oppressive as positively to encourage a contractor and a sub-contractor to connive together to avoid both the levy and the tax deduction by falsifying their accounts: oppressive taxation which encouraged evasion was contrary to normal revenue principles, and he must tell the Cabinet that in his view it would be impossible for the Chairman of the Inland Revenue, who had a statutory duty to administer the Taxes Act, to defend before the Public Accounts Committee a situation in which tax revenue was lost as a result of the administration by the Inland Revenue of an
oppressively penal levy. Besides this very important point of principle, the Inland Revenue were currently working on a number of major new taxes to which he was sure his colleagues attached great importance, including the capital transfer tax, the wealth tax, the development land tax, and the petroleum revenue tax: they did not have the spare capacity to mount a major penal campaign against the Lump through a levy. After very full discussion in EC, two solutions had been proposed. One was to reduce the penal levy to 20 per cent, at which it would be effective, but not oppressive. The Inland Revenue would be prepared, reluctantly, to enforce a levy up to this level. The CPRS paper supported this solution. The other solution would be for the Secretary of State for the Environment to take on the whole task of administering, collecting and policing a higher rate of levy as well as running the proposed compulsory public register: this was expected to cost 550-650 extra staff, of whom 400-500 would be needed for the levy. The Minister for Planning and Local Government had now proposed, in C(75) 4, to narrow the gap by accepting a levy rate of 30 per cent: but this was still too high for the Inland Revenue to administer.

THE MINISTER FOR PLANNING AND LOCAL GOVERNMENT said that in the view of the construction unions and the Trades Union Congress, the Construction Industry Contracts Bill introduced in 1970 represented the minimum which they could now accept: indeed, they were anxious to proceed rapidly to the complete decasualisation of the industry. This was not possible for the time being, which made it all the more important to proceed on the basis of a scheme at least as stringent as that of 1970. The report of the Phelps-Brown Committee in 1963 had given a number of arguments in favour of abolishing the Lump: apart from the loss of tax and of insurance contributions, the Lump increased the risk of injury in an industry which had an appalling safety record, it tended to fragment the industry and weaken the trades unions, it stifled the training of apprentices, and it resulted in shoddy work. The Misselbrook working party in 1973 had represented both sides of industry and recommended something on the lines of the 1970 Bill, brought up to date. In 1970 the penal levy had been proposed at a rate of 30 per cent, and he had suggested increasing this to 40 per cent because the trades unions now felt even more strongly than in 1970; however, if it was necessary to secure agreement he was prepared to start at 30 per cent, a rate which the Cabinet had accepted in 1969. As regards the genuine, self-employed person, he now proposed a period of two years' grace from the introduction of the scheme during which time he could decide to work solely for private clients, or become an employer or an employee. As he saw it, the difference between his proposals and those of the Inland Revenue was that while he aimed to abolish the Lump, they aimed to control it, and therefore in a sense to make it legitimate. In spite of the Inland Revenue objections to collecting the proposed penal levy, it did not seem sensible for the Department of the
Environment to manage the scheme, and there might well be public criticism of such an arrangement.

THE PAYMASTER GENERAL said that his main concern was to deal with the abuses of the Lump effectively, and in his view the Inland Revenue scheme would be more effective than the Minister's scheme. He was prepared to accept, reluctantly, a levy rate of 20 per cent which the Revenue would collect, but no more. He feared that the Minister's scheme would encourage large-scale evasion of control, with the result that the tax deduction scheme itself would become less effective. Finally, as regards the self-employed man, the Phelps-Brown report had said that his interest must be safeguarded, and it was no light matter to say to a group of people, however small, who were responsible citizens in every sense, that they must now become employees of other people, or form their own firms, simply to help control other, less reputable tradesmen. The Minister's proposal to allow a two-year period of grace did not answer the point, because in two years' time it would still be wrong to force the self-employed man to conform.

In discussion of the main issues the following points were made -

a. It was essential that the Government should be seen to be tackling the abuses of the Lump firmly, and even dramatically. The trades union movement at the highest level was adamant in demanding action: half-measures would inevitably influence attitudes towards the social contract.

b. The rate of penal levy should therefore be substantial: but it would be wrong to impose its collection on the Inland Revenue contrary to their principles, whereas if the scheme were administered by the Department of the Environment they would be able to apply a degree of knowledge of the industry, and therefore of discrimination, which would not be open to the Revenue. It was important for the Inland Revenue to press ahead with tightening up the existing tax deduction scheme, and that the collection of the penal levy should not make tax collection more difficult.

c. The problem of the genuine self-employed tradesman raised an important point of principle; even though no means had yet been found to devise a safeguard for such a man who worked for a main contractor, the period of grace proposed by the Minister for Planning and Local Government should be accepted, and efforts to devise a safeguard should continue during this period.
d. The construction industry faced a severe depression, and this made it all the more important to tackle the Lump; there were other difficulties too facing that part of the industry engaged in the development of the North Sea oilfields, which needed urgent examination.

e. The main contractors as well as the trades unions were anxious to deal with the Lump, and the whole of the industry would be represented on a statutory panel charged with supervising the Minister for Planning and Local Government's scheme: if the scheme was to be administered by the Department of the Environment, it would be helpful if the Inland Revenue were represented on the panel. It was also important that the proposed arrangements for a public register, and certificates of registration, should be proof against forgery and impersonation.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that legislation to tackle the abuses of the Lump should be based on the scheme put forward by the Minister for Planning and Local Government, as modified by him in C(75) 4. The levy would begin at the rate of 30 per cent, and go up to 40 per cent at the end of the period of grace of two years (from the introduction of the scheme) during which a genuine self-employed person who complied with the revised Inland Revenue rules would be treated as registered under the Act. During the period of grace, the Minister for Planning and Local Government should continue to seek a sound method of safeguarding the genuine self-employed sub-contractor, and report the result to EC; that Committee should also consider whether all the proceeds of the levy should go to the Consolidated Fund, or whether part should be put to other uses. The task of administering the Minister's scheme, and collecting the levy, should be carried out by the Department of the Environment. The Inland Revenue should proceed separately with their own arrangements for tightening up the existing tax deduction scheme, and it might be helpful if they were represented on the construction industry panel which would supervise the working of the Minister's scheme. As regards the possible effects of the Minister's scheme on the on-shore development programme for North Sea oil, including the building of platforms, the Secretary of State for Scotland in consultation with the Secretary of State for Employment should circulate a paper on the whole of the labour situation in the on-shore industry, including the need to provide accommodation for the construction teams at isolated sites.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Invited the Minister for Planning and Local Government to draft the Bill to give effect to his scheme for tackling the abuses of the Lump, on the basis outlined in the summing up.

3. Invited the Secretary of State for the Environment to prepare the machinery within his Department for administering the scheme and collecting the levy.

4. Invited the Paymaster General to press ahead with the plans of the Inland Revenue to tighten up the existing tax deduction scheme.

5. Invited the Secretary of State for Scotland, in consultation with the Secretary of State for Employment, to circulate to the Ministerial Committee on Energy a paper on the labour situation in the on-shore North Sea oil development industry.

3. THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION said that she had circulated to members of the Cabinet a report of a meeting of the Ministers directly concerned on the line to be taken in the resumed negotiations on the price to be paid for the import of sugar from certain developing, principally Commonwealth, countries under Protocol 22 of the Treaty of Accession to the European Economic Community (EEC). The meeting had considered two issues - the long-term price to be guaranteed by the EEC; and the price actually to be paid in 1975, to be guaranteed by the British Government. On the first issue, it had been agreed that the sugar producing countries should be urged to accept a price equivalent to the price of beet sugar produced in the EEC. On the second issue, it had been agreed that in the last resort the Minister of Agriculture, Fisheries and Food could offer a price up to a limit of £250 a ton cif for 1975, plus, if necessary to obtain agreement by the Caribbean producers, an offer of supplementary payments related to 1974 shipments from Jamaica, Barbados and Trinidad. However, a price of £250 a ton was very high. If the producing countries would not accept this, the matter should be brought again to the Cabinet, who should consider whether it would be better to accept the consequences of a shortage of sugar rather than pay more.

In discussion it was urged that it would be a mistake to increase the price we were prepared to guarantee from the £215 a ton already offered, which was itself a profitable price for the producers, being
ready if need be to take steps to deal with the consequences of any shortage of sugar that might result. An increase in the price of the order suggested would be a very heavy burden on the balance of payments, costing us in 1975 some £200 million more than in 1974. Ministers were that afternoon to consider the whole difficult balance of payments position, and a decision to increase the price offered should be deferred until the overall situation had been examined.

On the other hand it was argued that since the Minister of Agriculture, Fisheries and Food was opening that afternoon price negotiations with representatives of the producing countries, he must have authority to negotiate within the terms already agreed by Ministers if an immediate breakdown was to be avoided. If agreement could not be reached on that basis then the whole matter could be reappraised.

THE PRIME MINISTER, summing up the discussion, said that on balance the Cabinet agreed that on the long-term guarantee the producers should be urged to accept a price equivalent to the EEC beet price as giving them considerable stability in a highly volatile commodity. On the price to be guaranteed for 1975, the Minister of Agriculture, Fisheries and Food should conduct his current negotiations with representatives of the producers on the basis agreed at the meeting of Ministers concerned. If it proved impossible to reach agreement with the producers on that basis he should bring the matter back to the Cabinet for decision on which course to follow.

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 proceed accordingly in his negotiations with representatives of the sugar producing countries.

4. THE SECRETARY OF STATE FOR SOCIAL SERVICES said that two proposals for directives by the Council of Ministers of the European Economic Community (EEC) were due to be debated, on the recommendation of the House of Commons Scrutiny Committee, in the House on the evening of Tuesday 14 January. This debate had been arranged to precede the expected discussion of the draft directives in the Council of Ministers on 20 January, but that had now been deferred until 10 February. The draft directives provided for the free movement of doctors within the EEC, in accordance with the provisions of Articles 52-58 of the Treaty of Rome on freedom of establishment. She had serious doubts on the principle involved, and would be unhappy at having to defend it, particularly since the
spokesman for the doctors was claiming that it would increase their bargaining power against their employers in the National Health Service. Moreover Government supporters in the House were unhappy with the draft directives, and it was by no means certain that the Government could carry the day.

In discussion it was noted that the subject matter of the draft directives had been discussed over a considerable time, and that when the proposals had been debated in the House of Lords on 9 December 1974 the Government spokesman had given them a general welcome. Any policy difficulties should have been resolved in the appropriate Cabinet Committee before now.

It was also noted that this debate was one of a considerable number of debates due to be held in the House of Commons on the recommendation of the Scrutiny Committee, and that some Government supporters were likely to be unhappy with them. It would be difficult to ensure that the Government won the vote in every case, and there was much to be said for the Minister responsible for each debate seeking to reach agreement in advance with those Government supporters who felt strongly on the subject concerned, so as to avoid divisions. A memorandum on the whole issue of the handling of debate on EEC instruments recommended by the Scrutiny Committee was under preparation.

THE PRIME MINISTER, summing up the discussion, said that the Ministerial Committee on European Questions should aim to meet on Monday 13 January to decide the line to be taken in the debate and the Government Motion that would need to be tabled that night. The results of the discussion could be reported if necessary to a meeting of the Cabinet the following day. The Cabinet would have an early discussion of the whole question of the handling of debates arising from recommendations of the Scrutiny Committee.

The Cabinet -

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

2. Invited the Secretary of State for Social Services to circulate a memorandum on the issue to the Ministerial Committee on European Questions.
3. Invited the Secretary of State for Social Services to discuss with those Government supporters concerned their attitude to the directives.

4. Invited the Lord President of the Council, in consultation with the Foreign and Commonwealth Secretary, to circulate a memorandum on the handling of debates on European Economic Community draft legislation recommended by the Scrutiny Committee for discussion at an early meeting of the Cabinet.

Cabinet Office

9 January 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 14 JANUARY 1975
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 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 James Callaghan MP
Secretary of State for Foreign and
Commonwealth Affairs

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
(Item 1)

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

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)

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1. THE FOREIGN AND COMMONWEALTH SECRETARY reported on his recent visit to Southern Africa.

The Cabinet's discussion and the conclusions reached are recorded separately.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that with the onset of winter the conditions in which the 8,000 Turkish Cypriot refugees were living in the Akrotiri Sovereign Base Area had become increasingly difficult and we were under very great pressure to permit their evacuation. He therefore proposed to inform the Turkish authorities that as a humanitarian gesture we were prepared to allow the refugees to be evacuated from Akrotiri by Turkish aircraft at an agreed rate. The refugees should, in the first instance, go to Turkey but there was little doubt that they would ultimately be resettled in the Turkish-controlled part of Cyprus. While this decision would be unwelcome to the Greek Cypriots, it might open the way for the Turks to make some reciprocal gesture that would benefit the Greek Cypriot refugees.

The Cabinet -

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

3. THE SECRETARY OF STATE FOR THE ENVIRONMENT recalled that the Cabinet had agreed last November to his proposal to seek the agreement of the French Government to postpone for at least a year a decision on whether to go ahead with the full construction stage of the Channel Tunnel project. The French Government, with some reluctance, had agreed that this proposal should be put to the two companies, British and French; but the companies, to the surprise of the French Government, had rejected it. Instead, they said that they would claim that the project had been abandoned by the two Governments unless the British Government ratified the Treaty by midnight on Monday 20 January and the two Governments entered detailed discussions with the companies on possible new arrangements, including new financial arrangements, for the completion of the project. In his view, the companies' counter-proposal was completely unacceptable and he was not prepared to recommend it to his colleagues. Accordingly, in his own view and that of the Minister for Transport, negotiations with the companies should be carried no further, and the present project abandoned. It might be worth
considering the project afresh in some years' time, but this would be a completely new arrangement. It was likely that the French Government and the companies would be issuing statements the following Monday about the abandonment of the project, and he must therefore make a statement in Parliament. For the sake of courtesy, he should inform the French Government about his intention without delay. A meeting of the Ministerial Committee on the Channel Tunnel Project had been arranged for the evening of the same day, and provided that that Committee agreed he hoped that the Cabinet would authorise him to inform the French Government the same evening, after which a report could be made to Cabinet the following Thursday.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet noted that the Ministerial Committee on the Channel Tunnel Project would be considering a proposal that the present Channel Tunnel project must be regarded as abandoned; and they agreed that, provided that the Committee agreed, the Secretary of State for the Environment should make a statement in Parliament the following Monday, after informing the French Government of his intention. The abandonment of the project would result in some cost to the British Government including charges of some £20 million to redeem Government-guaranteed loans and to pay off shareholders, but the effect of continuing the project on new terms would be much more costly.

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, subject to the agreement of the Ministerial Committee on the Channel Tunnel Project, to inform the French Government that the British Government were not prepared to carry negotiations with the companies any further, but accepted that the present project had been abandoned.

3. Invited the Secretary of State for the Environment to make a report to the Cabinet at its next meeting and to make a statement to Parliament on the following Monday.

Cabinet Office

14 January 1975
THE FOREIGN AND COMMONWEALTH SECRETARY said that the discussions he had held during his recent visit to Africa had been largely concerned with the possibility of making progress towards a settlement in Rhodesia. A number of factors had combined to change the situation in Southern Africa: the political changes in Mozambique; the growing extent and sophistication of guerrilla training and equipment; and the prospect that if a settlement were not reached, there would be violence on an increasing scale. The Prime Minister of South Africa, Mr Vorster, apprehensive of a threat to the stability of Southern Africa, had approached President Kaunda of Zambia with the object of agreeing on moves towards a settlement. President Kaunda shared the South African concern, and in co-operation with President Nyerere of Tanzania and Sir Seretse Khama, President of Botswana, had persuaded the leaders of the various African groups in Rhodesia to join together within the African National Council (ANC). Discussions had then taken place in Lusaka between the African leaders and the representatives of Mr Vorster and of Mr Smith, the leader of the illegal regime in Rhodesia. A measure of agreement had been reached on steps to improve the situation, although disputes had now arisen on the extent of this agreement. President Kaunda and President Nyerere had urged that the British Government should now join the discussion and that we should convene a constitutional conference without delay. This was also the wish of the ANC, Mr Vorster, whom he had met at Port Elizabeth, believed that it would be unwise to call a conference until discussions between the ANC and Mr Smith showed that they were prepared to deal with each other on a realistic basis, and that conditions existed for a successful conference. It was also his own view that the hopes that were being placed by the Africans in the outcome of an early conference were exaggerated, and that some time should be given for preliminary exchanges between the ANC and Mr Smith. President Kenyatta of Kenya agreed with him. A fundamental issue was the question of majority rule. Mr Vorster, who had made it
clear that he would be prepared to put pressure on Mr Smith to reach a settlement, claimed that he himself was not necessarily opposed to majority African rule in Rhodesia but was concerned only that a standard of qualification should be laid down to determine the right to vote. It seemed unlikely, however, that he would be prepared to press Mr Smith to accept arrangements which would lead to majority rule within the next one or two years. President Kaunda and President Nyerere did not insist on the immediate introduction of one man one vote, and would accept a qualitative franchise, although they would expect the required qualification to be such as to lead to immediate majority rule. It could be assumed that this would not be acceptable to Mr Smith, and it was not possible to predict whether a compromise between these opposing views would be found.

It was important to respond to the representations which the African leaders had made to him. In the statement which he would be making to Parliament later that day he proposed to say that he hoped to move ahead with consideration of, and preparations for, a constitutional conference, but that unless efforts in this direction were to be wasted it was necessary that early progress be made towards securing observance of the agreement worked out at Lusaka between representatives of the African leaders, the South African Government, Mr Smith and the ANC, and that it would be valuable if direct exploratory talks could begin between the ANC and Mr Smith. He hoped his colleagues would agree in principle that he should convene a constitutional conference and that he should send messages to Mr Smith and to the ANC which would seek to elicit their views on the holding of a conference, on the place where it was to be held, and on the timing. He would not wish to announce the calling of a conference until he had sufficient reason to believe that Mr Smith would attend it. The timing would need to be determined by the progress of the direct talks between Mr Smith and the ANC. The conference could not take place in Salisbury; there were certain attractions in proposing London; but on balance it might be better for it to take place in Southern Africa where Mr Smith and the ANC would come under more immediate pressure from Mr Vorster and the other African Governments respectively. In his message to Mr Smith he would propose to send a representative to Salisbury on a confidential basis for exploratory discussions, which might lead to the establishment in Salisbury of a small group of officials from London who would act as observers in the context of the preparations for a conference. This last suggestion had been pressed upon him by the African leaders.

In discussion it was suggested that since Mr Vorster represented the only source of effective pressure on Mr Smith, we should give weight to his views on the timing of a conference. The Africans might well be mistaken in seeking an early conference. We should wait until we knew whether Mr Smith would be prepared to make the necessary concessions. If the conference failed we would be blamed. We
should seek to persuade the Africans that it should not be convened until there was evidence that sufficient progress had been made in the preparatory talks in Salisbury. It was also argued, however, that unless we met African wishes we would be charged with failing to seize an opportunity of settling the Rhodesian problem. This charge would receive substantial support in the United Nations, and it could become a serious issue at the next meeting of Commonwealth Heads of Government in April. It was suggested that we should nevertheless avoid a firm commitment to a conference, or any indication of a proposed date, until we knew more about Mr Smith's attitude.

THE PRIME MINISTER, summing up the discussion, said that it was agreed that the Foreign and Commonwealth Secretary should make a statement in Parliament on the general lines suggested, and that messages should go to Mr Smith and the ANC which would indicate a readiness to hold a conference in due course after adequate preliminary consultation had taken place in Salisbury. It should however be made clear that the calling of the conference would be dependent on the implementation of the Lusaka agreement and on sufficient progress in the preliminary consultations. The message to Mr Smith would also propose that the Foreign and Commonwealth Secretary should send a representative to Salisbury for confidential discussions. The position would be reassessed in the light of Mr Smith's response to the message. The discussion in Cabinet was to be regarded as particularly confidential.

The Cabinet -

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

Cabinet Office

15 January 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 16 JANUARY 1975
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 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 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 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 Rt Hon Lord Shepherd
Lord Privy Seal

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 4)

Mr Joel Barnett MP
Chief Secretary, Treasury

SECRETARIAT

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

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

It was reported that difficulties were still arising on debates on European Economic Community (EEC) documents. A number of Government supporters had put down an embarrassing amendment to the Government Motion to take note of the documents on agricultural prices which was due to be debated that evening. The need to keep members late to vote against their own colleagues caused problems of Party management.

In discussion it was argued that the problem arose partly because some members were using the new situation to extend Parliamentary involvement into an area previously the preserve of the Executive. On agricultural prices, for example, traditionally Parliament had not known what proposals the Government was considering until the final determinations had been made and announced, and the Government was accountable to the House only at that stage; it would therefore be an extension of the role of Parliament for it to become involved while negotiations were proceeding. On the other hand it was pointed out that if Parliament were to exercise an effective role in EEC legislation, it would need to make its views known before decisions were taken by the Council of Ministers. The Lord President of the Council and the Foreign and Commonwealth Secretary would shortly be circulating a joint memorandum on the handling of these debates.

THE LORD PRESIDENT OF THE COUNCIL reported that a message had recently been received from Mr Stonehouse asking for arrangements to be put in hand for him to relinquish his seat in the House of Commons. Subsequent reports had suggested that on the advice of his lawyer he was having second thoughts, and attempts had therefore been made through the British Consul General to secure written confirmation of his intention to resign. These had so far been unsuccessful; but the Consul General was hoping to arrange a meeting with Mr Stonehouse and his lawyer during the course of the day. If, however, no firm indication of Mr Stonehouse's intentions had been received by the beginning of the following week it would seem right to proceed with the establishment of a Select Committee to make recommendations about the action to be taken.

In discussion it was argued that the matter should be approached cautiously, despite the strength of feeling among the Government's backbench supporters that it was intolerable that Mr Stonehouse should continue as a Member of the House of Commons. Members were chosen by the electors in their constituencies, not by the House
itself; and the House should therefore beware of acting too precipitately over the removal of any properly elected Member. Moreover, while it was true that Mr Stonehouse could not look after his constituents' interests while not in the country, there were a good many instances of Members who had been absent for relatively long periods without giving rise to serious dissatisfaction. Mr Stonehouse had not been convicted of any criminal offence, and the objections to taking action merely on the suspicion of such an offence were obvious, particularly since it might be found that illness lay at the root of some of his recent actions.

As against this, it was argued that, in the circumstances of his disappearance involving his feigned death, Mr Stonehouse had treated Parliament with contempt; and he had almost certainly abused his privileges as a Member of the House. And while it was true that no allegations of fraud had been substantiated, he did not deny that he had entered another country by means of a forged passport. Moreover, the longer the present situation continued, the longer would the electorate of Walsall North be left without effective representation.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that important issues of principle were at stake and that the decision must not be determined by the present strength of feeling amongst the Government's backbench supporters. The Lord President of the Council should discuss the matter informally with the Speaker to ascertain whether the basis of any action by the House might be that the House had been treated with contempt and perhaps also that Parliamentary privilege had been abused. There should also be informal consultations with the Opposition before any action was taken. Subject to the outcome of these discussions, it would be right, if no further action had been taken by Mr Stonehouse to relinquish his seat by the beginning of the following week, to arrange for the matter of his continued membership of the House of Commons to be referred to a Select Committee. If this were not the Committee of Privileges itself, it would be desirable for any specially constituted committee to consist largely of members of the Committee of Privileges, who were accustomed to dealing with such matters in a judicial spirit and would not be unduly swayed by the strength of feeling amongst backbench Members. It would be important to ensure that the points which had been raised during the Cabinet's discussion were before the Select Committee and taken into account by them. The Lord President of the Council should keep him informed of how it was proposed to proceed.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the decision by the Soviet Union to repudiate its Trade Agreement with the United States had led to speculation that the policy of detente was under threat and that Mr Brezhnev might be in difficulty with his colleagues. It was premature to reach either conclusion. The Russians had clearly decided that the conditions about Jewish emigration from the Soviet Union which the United States Congress had sought to lay down, and the restriction of credits to be made available by the United States Export/Import Bank to the very modest figure of $300 million over four years, rendered the Trade Agreement unacceptable; but there was no evidence of any intention on the part of the Soviet Union to abandon detente. Nor should any political significance be attached at this stage to the fact that Mr Brezhnev had been absent from public view since the end of December.

THE PRIME MINISTER, summing up a brief discussion, said that although it was unlikely that the failure of the Trade Agreement would carry wider implications for detente, the Russians might decide for political reasons to switch some of their trade with the United States to other suppliers. When he and the Foreign and Commonwealth Secretary visited the Soviet Union in February a substantial increase in the level of our exports to the Soviet Union would be high on the agenda for discussion.

The Cabinet -

I. Took note of the Prime Minister's summing up of their discussion.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that he had held discussions in London on 9 and 10 January and in Brussels on 14 January with representatives of the sugar producing countries on the supplement to the price to be paid in 1975 for sugar imported into the United Kingdom under Protocol 22 of the Treaty of Accession to the European Economic Community (EEC). As Cabinet had agreed, he had finally offered a price of £250 a ton cif, making it plain that this was the limit. The producers had in discussion lowered the price they were seeking from £315 a ton to £283 a ton, but at that level had linked it with an extension to 1 July 1976. The following morning he was holding a confidential meeting with the Minister of Agriculture for Mauritius at the latter's request. It could emerge at that meeting that there was further movement by at least some of the producers. He had kept representatives of the refinery workers and the Members of Parliament concerned in touch with the position; they were content with the way it was being handled.
In discussion it was suggested that it was right to stand firm on £250 a ton. This was a profitable price; the residual world market price was falling sharply, and there were considerable advantages to the producers in obtaining a long-term contract. In the light of further developments, the Cabinet should have a discussion next week on the general position reached and the implications of the options open.

The Cabinet -

2. Invited the Minister of Agriculture, Fisheries and Food to circulate to the Cabinet for discussion next week a memorandum on the position on sugar supplies and prices in the light of the alternative courses of action which were open.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that there had been a general discussion in the EEC Council of Ministers (Agriculture) on 13 and 14 January on the prices to be determined under the Common Agricultural Policy (CAP) for 1975-76. The discussion in the Council of Ministers would be resumed on 20 January and continue for much of that week. The prices were due to be decided during the course of that meeting, but it was now doubtful if they would be. The meeting would in any case be a difficult one. His line at it would be in accordance with the discussions on the subject in the Ministerial Committee on European Questions.

In discussion it was noted that it would be crucial to secure, in accordance with our renegotiation objectives, an improved regime for beef, though this did not mean that we need object on doctrinal grounds to any degree of intervention. The likely increase in prices for dairy products, due both to the next transitional step to EEC price levels and to the price increases currently under discussion, was a worrying feature. The Ministers concerned had not reached agreement on the price for milk to be guaranteed to United Kingdom producers and on the consequences for the consumer price of milk - an issue that was separate from, but related to, the CAP price negotiations.

THE PRIME MINISTER, summing up the discussion, said that the Minister of Agriculture, Fisheries and Food should be guided in the negotiations by the discussions that had taken place in the Ministerial Committee on European Questions. Any issues, such as that of the milk price, which had not been resolved should be pursued urgently within that Committee, and be reported to the Cabinet if necessary.
The Cabinet -

3. Took note, with approval, of the Prime Minister's summing up this part of their discussion and invited the Minister of Agriculture, Fisheries and Food to proceed accordingly.

3. The Cabinet had before them a memorandum by the Secretary of State for Social Services (C(75) 5) about the inclusion in the 1976 census of a question about parents' countries of birth.

THE PRIME MINISTER said that the issue had been fully considered by the Home Affairs Committee in December 1974, when it had been decided on balance that the question should be included; and the position of the Secretary of State for Social Services had not then been reserved. It would therefore not normally be appropriate for the matter to be reopened in Cabinet; but he had agreed to make an exception on this occasion, bearing in mind that the Secretary of State for Social Services, who was acting on behalf of the Registrar General and not in her Departmental capacity, had been prevented by pressure of even more urgent business from attending the meeting of the Home Affairs Committee. Very strong grounds would however have to be adduced before it would be right to reverse the decision which the Committee had reached after a full discussion.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the inclusion in the 1971 census of a question about parents' countries of birth had given rise to more complaint than any other question and had imperilled the success of the census as a whole. There was no evidence that public feeling had changed significantly since then - indeed, the position might be even more difficult in 1976 than it had been five years earlier, in that Irish people might become reluctant to provide the information required. It was unlikely that the information given in response to the proposed question would be accurate: in 1971, when 3 per cent of people had failed to answer the question, those who had not replied were greater in number than the immigrant community. Moreover, even if a wholly satisfactory response could be secured, the information collected would be misleading because many people one or both of whose parents had been born in the new Commonwealth were in fact white - figures provided by the Registrar General showed that, of people over 18 with one parent born in the new Commonwealth, four out of five were white. Information no less accurate than would be obtained directly from a question about parents' countries of birth could be secured indirectly by assigning young people in a household to the ethnic group identified by the country of birth of the adults in the household. This method, though admittedly not wholly accurate - in particular...
because it would not identify coloured adolescents who had been born in this country but had left home - would be much less likely to cause offence. The Registrar General felt strongly that the use of this indirect approach was preferable; and considerable weight must be given to his advice on technical matters of this kind.

In discussion, it was argued that there was still a real danger that the inclusion of a question about parents' countries of birth would cause offence and that, since reasonably accurate information could be secured by other means, it was not worth imperilling the success of the census as a whole by including it. It was perhaps significant that in the Civil Service the Staff Side were strongly opposed to the recent decision that a count should be made of coloured employees. The case against inclusion was strengthened by the fact that there would not be a corresponding question in the census in Scotland. As against this, it was argued that the decision by the Home Affairs Committee had been taken after a full discussion and should stand. Points which had particularly weighed with the Committee were that the voluntary organisations active in the race relations field now favoured including the question, which supported the view that opinion had changed since 1971; and that the omission of a question which had appeared in the last census would lead to suspicions that the Government were seeking to conceal embarrassing information. Moreover, the seriousness of the opposition in 1971 could be overstated - the failure of 3 per cent of people to respond to the question about parents' countries of birth seemed in many cases to have arisen from a simple misunderstanding of what was required, not from dislike of the question. Furthermore, many of the complaints which had been made came not from the coloured community but from white people one or both of whose parents had been born overseas. Policies calling for positive discrimination in favour of immigrant and other deprived groups required information more accurate than would be produced by the indirect approach proposed by the Registrar General; and informed opinion was increasingly abandoning the view that differences in colour should be treated as though they did not exist or did not matter, and instead was tending to hold that sensible policies were impossible unless based on objective facts, and consequently on the collection of relevant and accurate information.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet's discussion had shown that there were substantial arguments both for and against including in the 1976 census a question about parents' countries of birth. Like the Home Affairs Committee, however, the Cabinet had decided on balance that the question should be included, and the Secretary of State for Social Services should inform the Registrar General accordingly.
The Cabinet -

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

2. Invited the Secretary of State for Social Services to inform the Registrar General of the Cabinet's decision that, on balance, the question about parents' countries of birth should be included in the 1976 census.

4. The Secretary of State for the Environment recalled that the Cabinet at their previous meeting had agreed in principle that the present Channel Tunnel project must be regarded as abandoned, and the French Government so informed, subject to more detailed discussion by the Ministerial Committee on the Channel Tunnel Project. Since then the Ministerial Committee had considered the matter and had come to the same conclusion. As regards giving effect to the decision, the only real alternatives in the Committee's view were to undertake some months of negotiation with the French Government on the possibility of going forward on some new basis, or else to close down the project while keeping open the possibility, at modest expense, of taking it up again in five or ten years' time. The balance of opinion on the Committee had been in favour of the second alternative, because the first seemed to them likely to endanger the equal sharing of charges between the two Governments, to prolong the planning blight connected with the high-speed rail link, and to involve the British Government negotiating in bad faith, a situation which would be evident to all concerned. Even in the context of the renegotiation of the terms for Britain's membership of the European Economic Community (EEC), an attempt to prolong negotiations with the French Government would in his view involve the risk of coming to the point of final decision on the project at an even less propitious moment. He had seen the French Ambassador the previous day and given him a message to M Cavaille, the French Minister of Transport; he had circulated a copy of this to members of the Cabinet. Predictably, the Ambassador had indicated his distress about this development, and the French were sure to adopt an indignant posture in public. As the Cabinet were aware, he himself would greatly have preferred a year's delay and a mature decision on the project, and he was still sure that at some time we would need to have a fixed electric rail link between Britain and France; nevertheless the present project was clearly dead, and it was some consolation that it was the action of the companies which had provided the opportunity to make a clear-cut decision.

In discussion it was emphasised that this decision was bound to place us in a very difficult position in relation to the French Government, not simply in the EEC context but in terms of our diplomatic posture throughout the world. Experience showed that the French would take the utmost advantage of any opportunity to damage us in the eyes of
other countries, for instance in the Euro-Arab dialogue, and it was unfortunate to give them plausible pretexts for arguing that the British could not be trusted to persevere in difficult circumstances. The first reactions from the French Government to the decision on the Channel Tunnel project suggested that they would certainly try to avoid paying their share of the charges arising from abandonment, and that they would do little to help in closing down the project in orderly fashion. It might still be possible to lessen the damage if we were prepared to continue negotiations with the French Government for a month or two, if necessary sending a senior Minister to Paris for the purpose.

On the other hand, it was pointed out that the final decision had come about as a result of the companies' action, and a statement of the British Government's position by 20 January was essential. The two Governments had equally been placed in an impossible position by the action of the companies, and we had previously received the clear impression that the French Government too would have preferred to have postponed the full construction stage for a year or more, even though the Tunnel was a far better investment for them than for us. In these circumstances there was no alternative but to endorse the decision reached by the Ministerial Committee, and the action taken by the Secretary of State for the Environment to inform the French Government.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the conclusion that the present Channel Tunnel project must now be regarded as abandoned, and the decision that it should be closed down in such a way as to keep open the possibility, at modest expense, of taking it up again in five or ten years' time. They recognised that this was bound to put us in a difficult position in relation to the French Government, but they endorsed the message which the Secretary of State for the Environment had sent to the French Minister of Transport; every effort must now be made to close down the project in an orderly fashion. The Secretary of State for the Environment should make a statement to Parliament on the following Monday.

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 to arrange to close down the Channel Tunnel project while keeping open the possibility, at modest expense, of taking it up again in five or ten years' time.

3. Invited the Secretary of State for the Environment to make a statement to Parliament on the following Monday.

Cabinet Office

16 January 1975
CONCLUSIONS of a Meeting of the Cabinet

held at 10 Downing Street on

TUESDAY 21 JANUARY 1975

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 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

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 Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon Lord Shepherd
Lord Privy Seal

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

SECRETARIAT

Sir John Hunt
Mr P D Nairne
Mr B C Cubbon
Mr C R Walker

SUBJECT

EUROPEAN ECONOMIC COMMUNITY
The Cabinet considered the arrangements for obtaining the decision of the British people on membership of the European Economic Community.

The Cabinet's discussion and the conclusions reached are recorded separately.

Cabinet Office

21 January 1975
CABINET

CONFIDENTIAL ANNEX

CC(75) 4th Conclusions

Tuesday 21 January 1975 at 10.30 am

The Cabinet had before them memoranda by the Lord President of the Council on the need for a referendum on membership of the European Economic Community (EEC) (C(75) 7), on the handling of information and the media during the referendum campaign (C(75) 8) and on the organisation of the referendum poll (C(75) 9). The Lord President of the Council had also circulated a report by an official working party on the practical implications of a referendum (C(75) 6).

THE PRIME MINISTER said that, if the Cabinet agreed that the manifesto commitment to give the British people the final say on continued membership of the EEC should be fulfilled by holding a referendum, he envisaged that the necessary legislation should be taken through Parliament as soon as possible after the Easter Recess and after the Cabinet had considered, in late March, the outcome of the renegotiation. The question would then arise of the position of individual members of the Cabinet during the referendum campaign. In their discussions towards the end of March the Cabinet would consider how far the manifesto objectives had been met. This would involve a careful weighing up of the specific results of renegotiation in order to reach an overall view of the case for continued membership of the EEC. A minority of the Cabinet might then be unable to accept the majority view, and if that situation arose he had it in mind to recommend to the Cabinet that the Ministers concerned should, subject to certain conditions, be free to express their point of view in the country during the course of the referendum campaign. This arrangement, which he envisaged being made whether the majority view was in favour of or against continued membership, would be without an exact precedent. In 1932 some Cabinet members had been allowed to differ publicly from the majority Cabinet view on the question of import duties, but that Cabinet was a coalition of political Parties whose differences on this issue were known. It had been formed in special circumstances and did not long survive the...
agreement to differ. The justification for a similar arrangement on the EEC issue would be that a number of Ministers had held very strong convictions over many years on the issue and, if they differed from the majority verdict on renegotiation, were entitled in the unique circumstances of a referendum to make their views known. But the Ministers concerned should not make speeches during the campaign which involved direct or indirect personal attacks on their colleagues in the Government, and the freedom to express differing views in public should not be available before the conclusion of the renegotiation. In the intervening period Ministerial speeches should not hamper the task of renegotiation by suggesting either that we ought to remain in the EEC at all costs, or that we ought to withdraw whatever new terms were negotiated.

In discussion there was general agreement with what the Prime Minister had proposed. Indeed it could be regarded as a corollary of the decision to have a referendum on this unique issue which cut across Party lines and traditional loyalties. It should not involve members of the Cabinet differing with each other in public: it would however permit certain Ministers to argue against the recommendation on the outcome of renegotiation which the Government would present to Parliament and the country in accordance with the majority view of the Cabinet. In view of the sincerely held differences of view about EEC membership, to insist on the normal rules of collective responsibility during the referendum campaign would produce deep dissension and could impair the unity of the Cabinet at a time of severe economic problems. The decision to hold a referendum, thereby giving an individual vote to each member of the electorate on the EEC issue, made it reasonable to give a similar freedom to members of the Cabinet.

However the potential disadvantages of the proposed arrangement should not be underestimated. Problems in Scotland and Wales could be aggravated; strong speeches would be made on both sides during the referendum campaign; the credibility of the Government could be strained; and the media would play up the differences of view between Ministers. This would make it more difficult for the Government to present a united front to the country after the referendum, not only in implementing the referendum decision, but also in handling the other critical issues which were then likely to face Ministers. It would be essential to keep the period of difference as short as possible and to make every effort to avoid controversy of a personal character. While it might be appropriate for one Minister to present a different point of view on a particular issue raised by another Minister, the manner and timing of the presentation should be arranged to avoid the impression of a personal confrontation.
The view was strongly put forward that an arrangement on these lines between members of the Cabinet should extend to the Parliamentary Labour Party and to the Labour Party in the country, and that tolerance of differing views would be allowed at all levels. A special problem would arise over the proposed Special Party Conference. It was arguable that the Party itself must be free to express its view. On the other hand the Government would still be bound by the Manifesto. It might be preferable to promote a debate which did not seek to reach an agreed conclusion or to commit the Party to conducting an active campaign in support of the view reached by the Conference.

On balance it was felt that while the Cabinet must preserve a united front until the results of renegotiation were known it might be best to announce now that the proposed arrangement would be made. There was already much speculation about the position, in view of the known opinions of individual Ministers. An announcement later might be misinterpreted as an unhappy compromise. It would be essential, however, for an early announcement also to make clear that there would be a Cabinet recommendation on the outcome of renegotiation, even if some members dissented from it. And while renegotiation was continuing, Ministers should not express or imply personal decisions on the basic question of membership. The other Member States of the EEC would see no point in making concessions to our specific renegotiation demands if it appeared that the Government were not negotiating in good faith, and that the outcome of negotiation was unlikely to affect the Government's final decision. It would not be possible for Ministers to refrain from any speeches or statements on EEC matters during the remainder of renegotiation, particularly since other political parties, Government backbenchers, sections of the Labour Party organisation and the specialised pro- and anti-EEC organisations had already begun to campaign. It should be possible for speeches and statements to be made within the framework of the Manifesto position and the needs of renegotiation; and special care should be taken to clear them with the Prime Minister.

There was also general agreement that every effort should be made to shorten the period of difficulty, by holding the referendum before the end of June. The timetable for the legislation would be very tight, and its passage might be assisted by a preliminary debate in Parliament, about the detailed and the technical aspects of a referendum, on the basis of a Government statement or White Paper. Parliament might also be furnished with the information collected by officials about referendum practice in other countries.
THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the decision of the British people on EEC membership should be given by way of a national referendum, which should be held as soon as possible after the conclusion of the renegotiation and after the passage of the necessary legislation. The Cabinet also agreed that they would need to reach a decision by the end of March, in the light of the outcome of the renegotiation, on whether the British people should be recommended to vote for continued membership of the EEC or for withdrawal. The Cabinet accepted his view that, if at that point a minority of the Cabinet were unable to agree with the majority decision on what the Government's recommendation should be, the Ministers in the minority should be free to advocate a different view during the referendum campaign on the basis of guidelines precluding any engagement in controversy of a personal kind which could impair the unity of the Government. He would circulate for consideration at their next meeting a draft statement announcing these decisions. The statement would also say that Parliament would have an opportunity of debating, before the introduction of the Referendum Bill, a White Paper on some of the procedural provisions which it would contain.

The Cabinet were also agreed that, while it would be unrealistic to avoid further Ministerial speeches on European Community matters in advance of the conclusion of the renegotiation and of the referendum campaign, Ministers should exercise the greatest restraint, in both the number and the content of such speeches, in the interests of the renegotiation and of the Government's standing in the country. He wished to see in advance any Ministerial speech on the EEC.

Finally the Cabinet also needed to take decisions on certain major issues about the organisation of the poll and information policy, and the Lord President should circulate a further memorandum for consideration at their next meeting briefly setting out the urgent questions raised by C(75) 8 and 9.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
CONCLUSIONS of a Meeting of the Cabinet
Held at 10 Downing Street on
THURSDAY 23 JANUARY 1975
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 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

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 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

Mr Joel Barnett MP
Chief Secretary, Treasury (Item 4)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 2, 3 and 5)
Mr B C Cubben (Item 5)
Mr H F T Smith (Items 2 and 3)
Mr P Benner (Item 1)
Mr J A Hamilton (Item 4)
Mr E J G Smith (Items 1-3)
Mr J A Marshall (Item 4)
Mr C R Walker (Item 5)

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

It was likely that the debate on Devolution, which would be taking place on 3 February on a Motion for the Adjournment, would continue on the following day. The Lord President of the Council would seek confirmation that the fact that the debate would arise on a Motion for the Adjournment would not inhibit discussion of matters requiring legislation.

It had been intended to debate the Prayer against the Import Duties (General) (No. 5) Order on 27 January. It was however desirable that the Secretary of State for Trade should speak for the Government, and since he would be out of the country on that date arrangements would be made to defer the debate until after his return.

The Cabinet were informed that the Government were in danger of being defeated during the Report Stage of the Social Security Benefits Bill, which was to be taken on 29 January. Two amendments had been accepted during Committee Stage against the Government's wishes. The first provided for the relaxation and eventual abolition of the earnings limit; the second provided for the introduction of a non-contributory invalidity pension (NCIP) for disabled housewives at the same time and at the same rate as the main NCIP. It was arguable that, with the present evenly balanced House of Commons, the Government must accept with good grace that amendments to Bills would sometimes be carried against their wishes. But deletion of the amendment dealing with the earnings limit was vital - it would ultimately add about £225 million a year to public expenditure - and might in the last resort have to be made an issue of confidence. The amendment relating to disabled housewives was however likely to present the greater difficulty politically. The Government had already decided on the introduction of an NCIP for disabled housewives in 1977, two years after the introduction of the main NCIP, and for operational reasons it would be impossible to advance this date. But the intention was that the benefit should be at the reduced rate which normally applied to dependants - i.e. it would be £4.30 a week rather than £6.90; and if the benefit were payable at the higher rate there would be additional expenditure of £5.1 million a year.

In discussion, it was argued that there was a good case on merits for resisting the abolition of the earnings limit; moreover, it was essential to do so from the point of view of preserving the credibility of the Government's economic strategy, which required them to show
the greatest determination in controlling public expenditure. In relation to the benefit for disabled housewives, the main danger in departing from the normal practice, under which dependants received a lower rate of benefit, was that there would in the long run be a risk of very serious repercussions throughout the social security field, particularly in relation to supplementary benefit and retirement pensions. The cost of these could run into hundreds of millions of pounds. As against this, it was argued that the new benefit was sui generis. It would after 1977 be payable to men and women who had never been able to work owing to congenital disability, and it would thus not be possible to draw distinctions based on the degree of dependency of those entitled to it. It would therefore be difficult in principle to defend a lower rate of benefit for women than for men.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that it was essential to secure the deletion of the amendment dealing with the earnings limit. There would be political advantage in stressing very strongly the Government's concern about the public expenditure aspects. In relation to disabled housewives, it would probably be best for the Government spokesman to argue that the new benefit was sui generis; that in principle it was right that it should be paid at the same level to all men and women alike; that having regard to the economic situation the Government could not commit themselves now to introduce the benefit for housewives in 1977 at more than the rate normally appropriate for dependants; and that they would keep under review, having regard to the economic condition of the country, the date when the higher rate would be introduced. It would be useful if the Secretary of State for Social Services would discuss informally with Government backbench supporters who had voted for the amendment in Committee how they would react to such an approach; and in the light of that she and the Chancellor of the Exchequer, in consultation with the Lord President of the Council and the Chief Whip, should decide the precise lines to be taken in the Debate at Report Stage.

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 received a curt reply from Mr Ian Smith to the message he had sent on his return from Africa. He had therefore sent a further message observing that Mr Smith had not commented on the substance of the earlier one or on the proposal that he should send representatives to Salisbury for confidential discussions with Mr Smith himself and with the leaders of the African National Council (ANC). He had now made firm proposals for the timetable for such a visit. The South African Foreign Minister, Dr Muller, had recently called on him and it was clear from their discussion that the South African Government had not yet decided how much pressure to apply to Mr Smith at this stage to come to a settlement. The ANC appeared to be behaving reasonably, and if they were able to impose a cease fire on their supporters, the South Africans would be under pressure to withdraw their police forces from Rhodesia and to step up pressure on the illegal regime. It was important that his report to the Cabinet should be held in strict confidence.

THE FOREIGN AND COMMONWEALTH SECRETARY said that a recent conversation with the Soviet Ambassador confirmed that the Soviet leaders were attaching considerable importance to the visit to Moscow which the Prime Minister and he would be making in February. We had passed to the Russians the draft of a joint statement or communique which we would wish to see emerge from the visit, and which, if the Russians accepted it, would be a document of substance.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the evacuation of the Turkish Cypriot refugees from our sovereign territory in Cyprus should be complete within a few days. The Governments of Cyprus and Greece had protested on the ground that we had not required the Turkish Government to respond by allowing Greek Cypriot refugees to return to their homes in areas now under Turkish control; but the two Governments were endeavouring to contain public demonstrations of protest. It had been necessary to present the decision in humanitarian terms; the Turkish Government would not have agreed to an explicit link between action by them helpful to the Greek Cypriots, and the evacuation of the Turkish Cypriots. It was possible, however, that the Turks would make a helpful gesture; Mr Denktash, the Vice President of Cyprus and leader of the Turkish Cypriot community, appeared to favour such a move.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
3. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that there were elements of hope in the present situation, but it was confused. We might face a period of several months in which there was no formal and complete cease fire but a measure of restraint by the Irish Republican Army (IRA), with violence coming largely from disaffected groups. Discussions were taking place within the leadership of the Provisional IRA and between IRA or Sinn Fein representatives and others. The Protestant paramilitary groups were very sensitive to any rumours that the Government was treating with the IRA, and there was a danger that they would react violently. Any approaches to Ministers or Members of Parliament, seeking to involve them with intermediaries or directly with the IRA, should be treated with great caution and reserve.

The Cabinet -

Took note of the statement by the Secretary of State for Northern Ireland.
4. The Cabinet considered a draft, circulated under cover of a note by the Prime Minister (C(75) 11), of a statement to be made by the Prime Minister in the House of Commons on the means by which the British people would decide the issue of Britain's membership of the European Community.

In discussion it was argued in respect of paragraph 5 of the draft statement that it would be wrong to reach a firm view now on the timing of Parliamentary debates. Thus it might be right that the Parliamentary Labour Party and the House of Commons should hold debates before the Government reached a decision on their recommendation to the British people about continued membership of the Community; and it was also possible that the House might wish to debate the issue of substance before renegotiation was completed. On the other hand the House might wish to reach its own conclusion on the question after the Government's recommendation was known. The position of Ministers in these debates could not be settled now but previous precedent suggested that they need not necessarily involve a Parliamentary vote on the question of substance. From the Parliamentary angle and in order to maintain the credibility of the Government's position in the Community, it would be important that the Government should reach a decision on their recommendation to the British people as soon as possible after the outcome of the renegotiation was known. It was accordingly agreed that the draft statement should both acknowledge that the announcement of the Government's recommendation would certainly provide an opportunity for the House of Commons to debate the question of substance and also make clear that a debate at an earlier stage was not precluded, subject to the convenience of the House. Paragraph 5 of the draft statement should be further amended to make fully clear that the Government decision following the completion of renegotiation would be a decision upon their own recommendation to the country on whether we should remain members of the Community on the basis of the renegotiated terms or whether we should withdraw.

The Cabinet agreed that paragraph 7 of the draft statement should be expanded to include, among the matters to be dealt with in the proposed White Paper on the referendum arrangements, the form of the referendum question to be put to the British people and the question of broadcasting arrangements. The firm passage in the draft statement about the timetable for the referendum legislation might be thought to be a hostage to fortune. But on balance there was clear advantage in exposing the programme in this way, in order to concentrate the minds of those who would be concerned in Parliament. Publication of the Bill before the Easter Recess might still be possible and could offer considerable advantages.

Certain drafting amendments were also agreed.
THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that he should make a statement in the House of Commons that afternoon in the terms of the draft attached to C(75) 11, subject to the amendments agreed in discussion. Consideration would later be given to the handling, including the position of individual members of the Government, of the Parliamentary debates that might be held, if necessary before as well as after the outcome of the renegotiation was known and the Government had decided the recommendation they would make on the question of Community membership. While there could be a case for giving Parliament an opportunity to express views on the question of substance before the Cabinet decided on the recommendation which they would make, it would be important that the Cabinet should proceed as quickly as possible to a decision on their own recommendation to the British people. In advance of that decision, individual Ministers would continue to be bound by the terms of the Manifesto in respect of renegotiation and should not therefore declare their views on the issue of substance or in any other way exercise the freedom foreshadowed in the circumstances defined in paragraph 6 of the draft statement.

The Cabinet -

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

2. Approved the draft statement attached to C(75) II, subject to the amendments agreed in discussion.
The Cabinet had before them a memorandum by the Lord President of the Council (C(75) 12) setting out the decisions required urgently on information policy in the context of the referendum on membership of the European Economic Community (EEC) and on the organisation of the referendum. The Lord President had previously circulated fuller memoranda on information policy (C(75) 8) and on the organisation of the poll (C(75) 9).

THE LORD PRESIDENT said that he proposed that the Government should undertake an information effort starting with factual information about the European Community and extending later to the preparation of material designed to present the outcome of renegotiation and its implications for the country in the light of the Government's recommendation. A special interdepartmental unit, established in the Cabinet Office, should carry out this programme under the guidance of the Foreign and Commonwealth Secretary, as Chairman of the Ministerial Committee on European Questions. Further thought should be given to the limitation of expenditure on propaganda activities by outside organisations. There should be informal consultation with the British Broadcasting Corporation and the Independent Broadcasting Authority on the arrangements they would be making in order to maintain a fair balance. The possibility of Government assistance to outside organisations, perhaps by arranging for the free distribution of certain information material, should be explored. Consideration should be given to the possibility of banning public opinion polls for a specified period. Decisions were required on whether the result of the referendum should be decided by a simple majority and on whether there should be special conditions about the size of the poll or of the majority. It was also essential to decide whether to keep open the option of a central count of all votes cast throughout the United Kingdom.

In discussion it was argued that experience showed the impossibility of producing Government-sponsored information in neutral form either on general issues such as the present nature of the Community or on technical areas such as its impact on trade. The Government's information effort might need to be restricted to the publication of the White Paper on the outcome of the renegotiation. Any information provided should be subject to the approval of Ministers collectively. On the other hand, it was argued that the Government had a responsibility to ensure that the public had adequate information to allow them to give an informed decision in the referendum. The recent White Paper on Developments in the European Communities March-October 1974 (Cmnd 5790) was an example of neutral information which could be satisfactorily produced.
by the Government. Denmark, the Republic of Ireland and Norway had organised large information programmes when they held referenda on accession to the Community. Without an adequate programme, there was a danger of apathy and a low poll, which would be of advantage to neither side.

It was suggested that the problem might be approached by consultations designed to ensure that the pro-and anti-EEC organisations were providing the information that the public would need. One role for the Government might be to correct factual errors made by the outside organisations. Another possibility was for the Government to appoint a neutral information adviser whose impartiality would be accepted by both sides.

In discussion of the information activities of outside organisations, the intention to consult the British Broadcasting Corporation and the Independent Broadcasting Authority was welcomed. Further work would be needed on the advisability and possibility of controlling other outside organisations. Attempts to limit total expenditure by the two sides were unlikely to be effective, but there was a case for limiting or banning specific activities such as newspaper or hoarding advertisements and paid canvassing. The activities of the British Commissioners and the Community's Information Service were strongly resented in some quarters, although they might prove counter-productive. A ban on public opinion polls was unlikely to be effective, particularly because polls could be carried out on behalf of foreign publications and their articles on such polls would then be treated as news items in this country.

In further discussion, on the organisation of the referendum poll, there was general agreement that the result should be decided by a simple majority, and that there should be no special conditions attached to the size of poll or the nature of the majority. On the counting and announcement of the votes, it was argued on the one hand that a central count was appropriate, as the purpose of the referendum was to allow the electorate of the United Kingdom as a whole to decide whether the United Kingdom should remain a member of the EEC. The publication of local or regional results which showed that certain areas had voted in a direction contrary to the United Kingdom result might provide the nationalist parties with a continuing grievance to exploit and could seriously embarrass the development of the Government's devolution policy. On the other hand, it was argued that a central count would be seen as designed to thwart the nationalist parties and would itself give them a grievance to exploit; and the Government could not in practice prevent the views of individual regions becoming known through polls of voting intentions and of how people said they had actually voted. There were arguments against a constituency or local government district basis for declaring the results, and a county count might therefore be preferable.
THE PRIME MINISTER, summing up the discussion, said that he would arrange for a group of Ministers to consider further the nature, content and general practicability of any Government information programme and to report to the Cabinet. The Lord President should give further consideration to the possible arrangements for controlling the information activities of outside organisations, and in particular to the need for controls on particular activities such as newspaper advertising and paid canvassing. The Cabinet agreed that there should be no ban on opinion polls; that the referendum decision should be by a simple majority; and that the Government should be guided, as far as possible, by normal Parliamentary election practice. The Cabinet should return as soon as possible to the question of a local or central count of votes, or the basis of a more detailed study of the feasibility of a central count.

The Cabinet -

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

2. Invited the Lord President to circulate a further memorandum on the feasibility of a central count.

Cabinet Office

23 January 1975
5. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 10) to which was attached a printed proof of the White Paper "Public Expenditure to 1978-79".

THE CHANCELLOR OF THE EXCHEQUER said that the White Paper embodied the decisions on Public Expenditure which the Cabinet had taken in the autumn. The figures were consistent with the decision that the annual average increase to 1978-79, starting from the base line in the survey report, should be about $2.5\%$ per cent in demand terms. He had set out in his memorandum the main points to which he thought Cabinet should give attention. External confidence was at present uneasily balanced, and if there were a collapse there would be very unwelcome decisions to be taken. It was important that publication of the White Paper should not provide a shock to overseas confidence. The announcement already made on the $2.5\%$ per cent limit had been accepted as reasonable, and he thought that people generally would be relieved to find that that target had been met. Nevertheless, the short-term prospects as seen now were different from those assumed last summer, when the survey report was compiled; but the expenditure programme was a rolling one and it should be possible to keep to the planned trend over the period in spite of short-term fluctuation. But more seriously, some of the medium-term assumptions which had been made began to look over-optimistic. The projected terms of trade now appeared worse; the growth of productive potential would be smaller than previously thought unless there were an increase in investment; and total output each year might be lower. For these reasons he had proposed in the Annex to his memorandum certain revisions to the printed text, designed to show that the Government were aware of the changing situation and stood ready to take action as necessary.

THE PRIME MINISTER, summing up a brief discussion, said that Cabinet agreed that the White Paper should be published the following week, using the revised text for Part I proposed by the Chancellor. There was some feeling that the additional publicity arrangements proposed in paragraph 8 of the Chancellor's paper might be improved by the production of a popular version of the paper for distribution to post offices and trades unions. This was a matter which needed further consideration and it should be remitted to the Presentation of Government Policies Committee under the Parliamentary Secretary to the Privy Council Office.

The Cabinet -

1. Approved the publication of the White Paper "Public Expenditure to 1978-79", with the amendments to the text set out in the Annex to C(75) 10.
2. Invited the Presentation of Government Policies Committee to consider and advise on the possibility of publishing a popular version of the White Paper at a later stage.
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 28 JANUARY 1975
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 Fred Peart MP
Minister of Agriculture, Fisheries and Food

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

The Cabinet were informed that, following their discussion on 23 January, there had been informal talks with Government backbench supporters who had voted during the Committee Stage of the Social Security Benefits Bill for amendments dealing with the earnings limit and with the payment of non-contributory invalidity pensions (NCIP) to disabled housewives. It had now been agreed that the Government would not at Report Stage seek to secure deletion of the amendment providing for NCIP to be payable to disabled housewives at the same rate as the main NCIP. Despite this, it was not certain that the Government would be successful in securing deletion of the amendments dealing with the earnings limit, though every effort was being, and would continue to be, made to secure a satisfactory outcome. The steps to be taken should it prove impossible to secure deletion of the amendment would be a matter for later consideration; it would be important that they should be such as to minimise any impression that the Government were in the last resort prepared in a matter of this importance to allow themselves to be ruled by the wishes of a small group of their backbench supporters.

THE PARLIAMENTARY SECRETARY, TREASURY pointed out that in the following week there would be a number of debates, as recommended by the Scrutiny Committee, on European Economic Community (EEC) documents. As a matter of Party management he could not continually whip late at night Ministers and other loyal supporters of the Government to vote against fellow Party members. Ministers in charge of these items of business should therefore seek to reach accommodation with those Government backbenchers who were likely to object to the proposals, in an attempt to avoid votes taking place.

In discussion it was reported that a new procedure was being introduced whereby any policy issues raised by a forthcoming debate on an EEC document would be considered by the Ministerial Committee on European Questions (EQ) and the Parliamentary handling of the debates would, in accordance with normal practice, be considered at Legislation Committee (LG). It was pointed out that on occasions when Ministers had tried to be conciliatory, they had met with no response from opponents to the EEC proposals. In the forthcoming debate on the draft directives relating to freedom of establishment of doctors and dentists it was hoped that an
accommodation would be reached with the critics, but at the expense of the Government adopting a position which was to some degree inconsistent with the attitude it had previously expressed in the House of Lords and in the EEC Council of Ministers. The opponents to Government motions on these documents formed a small element in the Party who were using the occasion to express their fundamental opposition to Britain's membership of the EEC. There could be no hope of satisfying them. However, a small minority should not be allowed to dictate Government policy, and the Government should maintain its authority.

It was suggested that some of the debates in the House had been unnecessary. However, the Government had decided to let the House have its head on this matter, in the expectation that it would be reasonable. If experience showed that it was not prepared to be reasonable, the whole arrangement would need to be reconsidered.

It was also pointed out that on occasions the issues involved were more fundamental than those of Parliamentary handling. An announcement would have to be made shortly on steel closures, which would bring up the limitations which the Treaty establishing the European Coal and Steel Community placed on Parliament's sovereignty over investment in the private steel industry. This issue formed one of our renegotiation aims as set out in the February manifesto, and should be pursued accordingly.

THE PRIME MINISTER, summing up the discussion, said that Ministers should try to keep their relations with Government backbenchers on these issues as smooth as possible, though of course keeping within the collective decisions of EQ and LG. The whole procedure for Parliamentary debate on EEC documents might need to be reviewed in the light of the forthcoming report of the Select Committee on Procedure.

The Cabinet -

Took note.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Ian Smith had rejected his proposal to send representatives to Salisbury for confidential discussions with Mr Smith himself and with the African National Council. He was keeping the African leaders informed and the Press would also be told. He intended to treat the matter in a low key. It was clear that a wide gap remained to be bridged and there could be no question of calling a constitutional conference at this stage.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Turkish Cypriot refugees had now been moved from our sovereign territory in Cyprus and, as we had expected, the Turkish Government had started to transfer them from Turkey to the northern part of Cyprus. Our decision had inevitably embarrassed our relations with the Governments of Greece and Cyprus; the Turkish Government had so far failed to respond to our urging, and to pressure from the United States, to make a concession helpful to the Greek Cypriots.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had decided it would be timely to take up a standing invitation from the Portuguese Foreign Minister, Dr Soares, and he would pay a visit to Portugal the following week.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
3. The Cabinet considered a note by the Home Secretary (C(75) 14) on the British Broadcasting Corporation's (BBC) licence fee. They also had before them a minute dated 27 January from the Home Secretary to the Prime Minister on the same subject.

The Home Secretary said that at their meeting the previous day the Broadcasting Committee had reached a substantial measure of agreement. The BBC had represented that in order to cover their deficit and the estimated costs of maintaining services at their present levels over the next 4 years they would require the licence fee to be increased from £7 to £9 for black and white television and from £12 to £18 for colour. The BBC had behaved irresponsibly over its last pay settlement but, following discussions he had had with the Chairman, machinery had been set up which should prevent any repetition; and the Committee did not think that the consumer should be penalised for that act of bad judgment on the part of the BBC. He had also spoken to the Chairman about extravagance, although it was fair to say that the BBC's costs compared favourably with those of their independent and foreign competitors. In the present economic circumstances it was desirable to encourage austerity by some limitation of income, and to give the BBC a rather smaller increase in fees than they had sought. Whereas his paper to the Broadcasting Committee had proposed a fee of £8.50 for black and white and £17 for colour, the Committee had on balance preferred a fee of £8 and £18. This would be slightly more generous to the BBC, especially in the later years as the proportion of colour sets increased; and it would be desirable to some extent to favour the users of black and white television, amongst whom were many from the poorer sections of the community. He had considered whether to go further by loading all the increase on to the licence for colour, but this would mean putting it up to £20, an increase of 67 per cent since 1971 which it would be hard to defend; moreover the division between the users of colour and of black and white television did not correspond at all exactly with that between rich and poor. The BBC were hoping for an increase that would last for the next 3 years. In his view it would be a mistake to specify how long the increase should last. It might well be less than 3 years, especially as the BBC's estimates of future inflation probably erred on the side of optimism. It was desirable that the new rates should run for at least two years, until the Annan Committee of Enquiry on the Future of Broadcasting reported, but it would be for the BBC to make a case to the Government if they found themselves in serious financial difficulties. It would be impossible at this stage to make a long term settlement except at the cost of undue generosity in the early years. He invited the Cabinet to agree therefore that he should announce the following day an increase in the BBC licence fee to £8 for black and white and £18 for colour.
In discussion it was argued that the consequences of the Home Secretary's proposal, as set out by the BBC in terms of staff redundancies and reductions in hours, would be quite considerable; and it would be unfortunate if, as a result, proposals for improving the service in areas which were now inadequately served failed to materialise. At a time of economic stringency it was all the more important to maintain good entertainment in the home. If the next increase came about the beginning of 1977 it might coincide with the Annan Report and need not be politically embarrassing to the Government. In the longer run there might be a case for a new system of financing, for instance by a surcharge on new colour sets which would be less open to evasion and would get away from the need for periodical increases in fees; but this was a fundamental policy question on which it would be wrong to pre-empt any recommendations which the Annan Committee might make.

The following points were made in further discussion -

a. The system by which old people living in old people's homes paid only 5p for a television licence was proving difficult to administer and there was discontent among those who did not qualify. Some local authorities were now using rate money to provide free licences to old age pensioners living in their own homes. An increase in the fees would make the local authority schemes more expensive, and thus might give rise to complaints from ratepayers and at the same time accentuate the discontent felt by pensioners. A general scheme for the provision of cheap licences to households consisting of old age pensioners would be expensive, probably too expensive to be financed from the rates in the present circumstances; and if the BBC were to finance it the licence fees for the rest of the population would have to be increased yet further. Moreover it would be difficult to prevent the misuse of such a scheme when pensioners were living with younger people. Nevertheless the possibility, and the cost, of devising a workable scheme would be worth further examination.

b. The present BBC charter forbade it to accept advertising even by Government Departments. Consequently Government advertising, such as the campaign for saving fuel, brought large profits to the independent broadcasting companies. The arguments against allowing the BBC to show advertisements did not apply to the public sector. Although the BBC themselves would oppose the change, the possibility of enabling, or requiring, them to accept public sector advertisements merited examination.
c. Adjusting the fees so as to tilt the balance in favour of black and white television would help to discourage firms from abandoning the manufacture of monochrome tubes in this country, with the harmful consequences this would have for employment.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Home Secretary should announce the following day an increase in the BBC licence fee to £8 for black and white television and £18 for colour. It was to be hoped that no further increase would prove necessary before the Annan Committee reported, but the duration of the settlement should be left unspecified. The Home Secretary should arrange for further study to be given to the possibility of providing cheap licences for black and white television to pensioner households and for the conclusions reached to be discussed by the Broadcasting Committee. The possibility of amending the BBC charter to permit paid advertising by public sector bodies should first be discussed with Lord Annan, to ascertain whether his committee were minded to deal with the subject; and subject to his views the Home Secretary should arrange for a study to be made of the possibilities and a paper prepared for discussion by the Broadcasting Committee.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Home Secretary to proceed accordingly.
4. The Cabinet had before them a memorandum by the Minister of Agriculture, Fisheries and Food (C(75) 13) on the present state of the negotiations on the price to be guaranteed for sugar imported in 1975 from the African, Caribbean and Pacific (ACP) sugar producers, the sugar supply situation, and the options open for future action.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that we should stand firm on the offer of £250 a ton cif we had already made, and do nothing at present to improve our existing offer. This would allow pressures to build up within the ACP group. When the ACP producers sought further talks and showed themselves ready to move from their position, we would have to make some small improvements in our offer in order to obtain agreement. He proposed that those improvements should be the conversion of our offer to an fob basis; an increase in the offered price to £240 a ton fob (equivalent at current freight rates to an increase of £5 a ton); and an assurance that, if world prices remained high we would consider giving a further guarantee, at a level to be considered at the time, for the period after 1975. He could not be sure that they would be enough to secure agreement; but bilateral contacts since the last round of negotiations had taken place with the responsible Ministers from Mauritius, Guyana, and Swaziland, and those countries were ready to be more flexible than Jamaica, whose spokesman was conducting the negotiations for the whole ACP group, had been hitherto. The Guyanese Minister had expressed the view that £240 a ton fob would probably be acceptable as long as it was accompanied by a formula which gave assurance of some premium above the basic EEC price in future years when the world price was above that price.

THE MINISTER FOR OVERSEAS DEVELOPMENT said she feared that this assessment might prove over-optimistic. The ACP group was showing remarkable solidarity. Some of the francophone members, who previously had been dominated by France, felt that they at last had an able and articulate spokesman for their interests, and would not readily allow a split to develop. In the upshot the whole Convention of Association under Protocol 22 of our Treaty of Accession might be jeopardised. In her judgment the price needed to be offered to bring sufficient pressure for the ACP countries to reach an agreement on sugar was higher than had been proposed.

In discussion it was reported that Mr Manley, the Prime Minister of Jamaica, had spoken by telephone to the Prime Minister the previous evening. The importance of not prejudicing the Protocol 22 negotiations had been accepted, especially after the success of the ACP/EEC Ministerial conference in Jamaica in July 1974; and
Mr Manley had expressed anxiety about the risk of ultimate failure in the sugar negotiations through miscalculation on the part of either side. Both sides in the negotiations wished to avoid being inflexible, but there were limitations to the extent to which room for manoeuvre existed. The Prime Minister had particularly emphasised to Mr Manley the considerable burden to our balance of payments which the price we had already offered represented, and the attractions for the producers of a long term contract. He had made it plain that, when the ACP countries wished to resume negotiations, we would be ready for further talks.

In further discussion it was argued that the price we had offered was fully defensible as fair to developing countries, represented a considerable increase in the price of sugar which had obtained, or would have been contemplated, a year previously, and was generous in the light of prospective sugar supply and demand. It would therefore be a mistake to accede to the ACP demands. The Minister of Agriculture, Fisheries and Food had been right to stand firm on his offer of £250 a ton cif until now, and should continue to do so for the time being. However, when it was plain that the ACP countries were ready to moderate their demands, and bearing in mind the implications for the overall Protocol 22 negotiations, it would be right for him to have discretion to make the adjustments to our present offer which he proposed, with a view to reaching agreement.

The Cabinet —

1. Agreed to adhere for the time being to the offer to guarantee a price of £250 a ton cif for sugar imported in 1975 into the United Kingdom from the ACP countries.

2. Invited the Minister of Agriculture, Fisheries and Food, when talks with the sugar producers resumed, and if necessary in order to reach agreement with them, to make the improvements in the offer set out in paragraph 8 of C(75) 13.

Cabinet Office

28 January 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 6 FEBRUARY 1975
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 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 Elwyn-Jones
Lord Chancellor

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

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 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

Mr Roy Hattersley MP
Minister of State for Foreign and
Commonwealth Affairs

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 2 and 3)
Mr B C Cubbon (Item 3)
Mr H F T Smith (Item 2)
Mr P Benner (Item 1)
Mr E J G Smith (Items 1 and 2)
Mr J R Jamerson (Item 3)

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1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. At the request of the Chairman of the Scrutiny Committee, it had been decided to devote a full day to discussion of European Economic Community documents on energy policy.

It was reported that the Social Services Committee had recently discussed the tactics for handling the Private Member's Bill seeking to amend the Abortion Act, which was due for its Second Reading on 7 February. The position was a difficult one: it was inevitable that there should be a free vote, while the strength of feeling on the issue, cutting across Party lines, made it undesirable for the Government to commit themselves absolutely one way or another. But the Bill as it stood was unsatisfactory in a number of respects; and it was unlikely that the Government would be able to secure the necessary improvements at a later stage, should it receive a Second Reading. In these circumstances the Committee had decided that the best course would be to try to persuade the sponsors of the Bill to withdraw it, on the understanding that arrangements would be made for establishing a Select Committee which, in the light of the recommendations recently made by the Lane Committee on the Abortion Act and of any evidence submitted to them by interested organisations, would prepare detailed proposals for legislation. There had been discussions with the sponsors of the Bill, who had indicated that they would on this basis be prepared to withdraw it. It was, however, still possible that there would be a vote at the end of the Second Reading debate, owing to opposition from those who did not wish to see any substantial change in the present law.
2. THE PRIME MINISTER said that in the course of their visit to Washington from 29 to 31 January, he and the Foreign and Commonwealth Secretary had held long and useful discussions with President Ford and the American Secretary of State, Dr Kissinger. They had quickly established an excellent rapport with President Ford who had impressed them both personally and by his approach to a wide range of international questions. A review of world economic problems, including energy, had included a discussion of measures that might be taken to stabilise the price of agricultural products and raw materials. If the producers of these commodities were to be persuaded not to follow the example of the oil producers in seeking to establish cartels, with the consequent threat to the world economy, it was necessary to give them confidence for the future. He found that the Americans, like us, were considering the possibility of creating this confidence through some form of price indexation; and he had given instructions for further work to be done on this. Discussion on the Middle East revealed very close agreement between ourselves and the Americans in our analysis of the situation and on the need to pursue Dr Kissinger's step by step approach. The discussions also enabled us to inform the Americans of some of the questions which he and the Foreign and Commonwealth Secretary would be pursuing with the Soviet leaders when they visited Moscow on 13 February. In particular they had discussed our intention to seek to persuade the Russians to sign a joint statement on the importance of further progress to prevent the proliferation of nuclear weapons. In addition to the meetings with President Ford and Dr Kissinger he and the Foreign and Commonwealth Secretary had held a meeting with the Committees on Foreign Relations of the United States Senate and House of Representatives; he had addressed the National Press Club in Washington; and had given interviews in which he had taken the opportunity to explain our policies, including our policy on Northern Ireland.

The Cabinet -

Took note of the statement by the Prime Minister.
3. The Cabinet had before them a note by the Lord President of the Council (C(75) 15) covering a report by the Home Office on the feasibility of a centralised count in the referendum on membership of the European Community.

THE LORD PRESIDENT said that the report showed that a central count would be feasible but somewhat hazardous. A large staff would be needed, security could not be guaranteed, and the count would take at least five working days, including polling day. But political rather than technical considerations were paramount. Some supported a central count because the referendum was a national issue. Others preferred a count and declaration by constituencies. Another course was to count and declare by counties as a preliminary to the announcement of a national result. On balance, he preferred a central count. A very early decision was needed to enable drafting of the relevant section of the White Paper on referendum arrangements to proceed and to allow the necessary planning, whether for a central count or for some other arrangement, to be put in hand.

In discussion it was argued that the real purpose of a central count would be, and would be seen to be, to conceal from different parts of the United Kingdom knowledge of how they voted, because of the political embarrassment which the voting results could create. But, even if the total Scottish vote, for example, went in the opposite direction to the vote of the United Kingdom as a whole, there would still be local variations within Scotland, as in other parts of the United Kingdom. To seek to suppress the voting in the regions would be wrong in principle and would in practice be defeated by public opinion polls which could be held before and after the referendum. A decision in favour of a central count would inflame opinion in Scotland and perhaps elsewhere and could make it more difficult to pass the necessary legislation through Parliament. There would also be serious practical difficulties in organising a central count, and these would be seen as demonstrating the lengths to which the Government were going in order to prevent the results of regional and local voting from becoming known. The results of the referendum could be aggregated and announced as a national total; but it should be conducted on lines as close as possible to a General Election; while there was a case for counting by constituencies it would be preferable to count by counties or regions.

Against this, the essentially national character of the referendum was emphasised. The question was whether the British people as a whole wished the United Kingdom to remain in the European Community, and the counting and declaration of votes should reflect this. There was no logical or moral obligation to declare the total
votes of particular groups of electors, whether on a geographical or on any other basis: only the total United Kingdom result would be significant. The analogy of a General Election did not apply, since each Member of Parliament was elected on the result in an individual constituency. If regional results were announced or known, their validity would be greater and of longer term significance than those of any unofficial polls. Different results for different parts of the United Kingdom would sharpen the divisions within the United Kingdom and even within England. The Government's policies on devolution could be put at risk, and the nationalist parties would be given a continuing grievance to exploit. There was some evidence that Government supporters in the House of Commons were in favour on balance of a central count.

THE PRIME MINISTER, summing up the discussion, said that on balance the Cabinet were in favour of a central count. Plans should be carried forward on this basis, and possible ways of reducing the estimated time required for a central count should be carefully examined. The White Paper on the referendum arrangements should reflect the Cabinet decision. Parliament would then have an opportunity to express its views and these could be taken into account by the Government. There was always a risk that the renegotiation would not be completed, as was hoped, by Easter; but work should continue on the assumption that the referendum would be held in June.

The Cabinet -

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

2. Invited the Lord President to prepare the relevant section of the White Paper accordingly.

3. Invited the Home Secretary, in consultation with the Lord President, to make plans for a central count.

Cabinet Office

6 February 1975
1. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

It was reported that Mrs Joyce Butler's Television Licensing (Elderly and Disabled People) Bill was due to receive its Second Reading on 21 February. If it became law it would reduce the British Broadcasting Corporation's revenue from licence fees by about £45 million a year. The Bill would therefore have to be opposed at Second Reading. It might however be carried, and in that event every effort would have to be made to block it at a later stage.

The Cabinet discussed the handling of the Report Stage and Third Reading of the Trade Union and Labour Relations (Amendment) Bill, which were to be taken in the House of Commons on 12 February. Questions would then be raised about the implications of the closed shop provisions of the Bill for Press freedom.

The intention was that the Bill should substantially restore the legal position to what it had been prior to 1971. It would legalise the closed shop but would be neutral on whether or not it should be introduced in individual cases. Newspaper editors had expressed fears that the establishment of a closed shop by the National Union of Journalists (NUJ) would imperil editorial freedom, and there was also anxiety that it might interfere with the access to the Press of occasional contributors who were not members of a trade union. Fears had also been expressed that the Bill might endanger the continued existence of the Institute of Journalists. The Secretary of State for Employment had argued during the Second Reading debate that these matters could not effectively be dealt with by means of statutory provisions and that the preferable course would be for all the parties concerned (proprietors, editors and trade unions) to agree amongst themselves on a general code of conduct. A possible Charter had been prepared by the editor of a national daily newspaper with a view to its signature by all the parties; and this general approach was understood to be supported by the NUJ. There were prospects that there would shortly be a meeting of all concerned at which it was hoped that the Charter would be agreed. It was perhaps unfortunate that matters had not proceeded more rapidly, but they were not under Ministerial jurisdiction.

It was argued that it was doubtful whether the Charter, even if accepted, could of itself provide an adequate long-term safeguard. The Press in Britain enjoyed greater freedom than in any other country, save perhaps the United States, and it was important to do
nothing which might imperil that freedom. If at some future time the NUJ passed into the control of political extremists, it was unlikely that the Charter would suffice to ensure editorial freedom or the continued ability of part-time journalists who did not belong to a trade union to get their work accepted. A similar threat to Press freedom could arise if the ownership of the Press became concentrated in undesirable hands. The Secretary of State for Employment had already indicated in the course of discussions that if the Charter were agreed and all the parties to it asked that it be given some form of statutory backing, the Government would consider such a request sympathetically. But on a matter of such fundamental importance it was undesirable to leave the initiative entirely to third parties; and the Government should therefore announce, during the following day’s proceedings in the House of Commons, that they were seeking methods of giving statutory protection to Press freedom and would be prepared to introduce any amendments to the Bill which might be found necessary at a later stage. If this were not done, there was a real danger that the House of Lords would refuse to accept the Bill in its present form; and any ensuing conflict between the Lords and the Commons would imperil the progress of other urgent Government legislation in the Lords.

On the other hand, it was argued that legislation to protect editorial freedom and the right of access to the Press of contributors who did not belong to trade unions would be a wholly new departure on which it would be inappropriate to embark by means of last-minute amendments to the Trade Union and Labour Relations (Amendment) Bill. Moreover, it was improbable that any statutory provision could produce the desired result. The fear was that the NUJ would secure a closed shop and use it to restrict Press freedom. But all experience showed that if a trade union was bent on securing a closed shop it could not be prevented from doing so by the law. A better course was to seek to ensure that the NUJ did not come under the control of extremist elements; and the proposed Charter, which would establish a broad area of agreement as to the principles which should apply, would be much more likely to secure this than any form of regulation by statute, which could only serve to exacerbate feelings. Moreover, while an NUJ closed shop could in theory prove a danger to editorial freedom, it was by no means the only danger – many editors already felt themselves at least as much in need of protection against proprietors as against trade unions. Furthermore, trade unions generally attached much importance to the closed shop provisions of the Bill and would be reluctant to see them diluted. Statutory backing for the Charter could however be considered if it were clear that all concerned wanted it. And whatever the immediate outcome, a suitable opportunity for reviewing the matter would arise before very long.
following receipt of the Report of the Royal Commission on the Press, by which time it could be seen what effect the relevant provisions of the Trade Union and Labour Relations (Amendment) Bill were in fact having.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed about the importance of avoiding any action which would endanger the freedom of the Press. During the following day's proceedings on the Trade Union and Labour Relations (Amendment) Bill in the House of Commons, the Secretary of State for Employment should indicate that the Government welcomed the fact that discussions were going on about a possible Charter. He should say that they recognised that the Charter would not - and was not intended to - provide an entire regime for the Press; but if the parties to the Charter joined in asking the Government for legislative or other action in support of it - for example, a statutory code of practice or something on the lines of the Fair Wages Resolution - such a request would be urgently and sympathetically examined. He should add that the Government attached much importance to preserving the freedom of editors from improper pressure from either proprietors or trade unions, and that they would consider whether any further legislative or other action was necessary in the light of the Report of the Royal Commission on the Press. The Royal Commission could of course submit an interim report on any matter which it considered of urgent importance.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Employment to be guided accordingly.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been a period of heightened tension in Cyprus during the past week. There had been indications that there would be a declaration by the Turkish Cypriots of the independence of the zone occupied by the Turks, possibly accompanied by military action at various points, including Nicosia Airport. The Prime Minister and the President of the United States, Mr Ford, had therefore sent messages to the Turkish Prime Minister and President respectively, drawing their attention to the grave consequences of a renewal of fighting and urging restraint. Subsequently, on the night of 8 February, there was evidence of troop movements in the Turkish occupied zone and we and the Americans received appeals from the Greek Cypriot leaders to intervene again in Ankara. Further messages were accordingly sent to the Turkish Government, and although they replied to the effect that the reports were unfounded there was evidence that military action had been in contemplation and was stopped at the eleventh hour. Although the situation had eased it remained uncertain and would have to be watched very carefully.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had visited Portugal on 6 and 7 February at the invitation of the Portuguese Prime Minister, Dr Soares. There was concern about the influence of the Portuguese Communist Party and the possibility that they would take over the government of the country. The Communists did not enjoy strong support numerically, but they had achieved a strong minority influence within the Armed Forces Movement (AFM). He thought there was a reasonable prospect, however, that the AFM would retain its cohesion, and in that case the power of the Communists would be limited. He had been assured that the elections would be held on 12 April. The Portuguese Government were taking a helpful line on the Rhodesia question; the consulate which the illegal regime in Rhodesia had been allowed to establish in Lisbon would be closed in the near future. It was important that we should do all that we could to encourage the democratic movements in Portugal and he hoped that further Ministerial visits to that country could be arranged.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the African leaders in Rhodesia had informed our High Commissioner in Lusaka of their talks with Mr Ian Smith. The question of a constitutional conference had been discussed and there was a possibility of progress although Mr Smith continued to say that the conference should be held in Salisbury, which was totally unacceptable to the Africans. At this stage, Mr Smith appeared to be playing his hand alone; he had not yet involved any of his colleagues in the talks.
The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary
3. The Cabinet had before them a note by the Lord Chancellor (C(75) 16), to which was attached a report by the Ministerial Group on the information policy to be carried out by the Government in relation to the referendum on United Kingdom membership of the European Economic Community (EEC); and memoranda by the Lord President of the Council on the possible arrangements for controlling the information activities of outside organisations (C(75) 17) and on the question to be included on the referendum ballot paper (C(75) 18).

THE LORD CHANCELLOR said that, following the Cabinet's discussion on 23 January, a Ministerial Group had met under his chairmanship to consider the practicability, form and control of any Government information programme relating to the referendum, having regard to the extent of non-Government publicity. The Group had concluded that a Government information programme would be essential as a means of discharging a necessary part of the Government's responsibilities in relation to the referendum. There should be an initial Government pamphlet, distributed to all households in, say, April, containing basic factual material about the referendum itself, the composition of the European Community, the United Kingdom's accession, and the commitment to renegotiation. An interdepartmental unit should be established in the Cabinet Office with the task of planning and preparing the Government's information programme and should be directly responsible to the Foreign and Commonwealth Secretary. The unit's first task should be to prepare the initial Government pamphlet, which should be approved before issue by the Ministerial Group, if the Group were kept in being. The Cabinet were invited to endorse these agreed recommendations.

The Group had also envisaged that the information programme should include a second pamphlet, for similar distribution about the end of May, dealing with the general issue of membership, in the light of the renegotiated terms. But the Group had not reached an agreed conclusion on how the Government's recommendation or the cases for and against continued membership should be prepared and presented. It had been argued, on the one hand, that it would be contrary to the fair conduct of the referendum, and thus wrong in principle, for the Government to use the resources of the Government information services to present their view on an issue which they had decided should be left entirely to the decision of the electorate; in any case the Government's recommendation would presumably be presented in a White Paper, in Parliamentary debates, and in Ministerial speeches and broadcasts. Other members of the Group took the view that, since the Government would take a decision, as a Government, on the recommendation to be put to the British people, it would be entirely proper, and the Government's duty, to explain and justify their recommendation by using the Government information machine. The Group were agreed that the Government had a responsibility to see
that the arguments for and against membership were presented to the electorate, but further study was needed of the appropriate means of presenting both sides of the case. There were objections to inviting the two campaigning movements to contribute pieces, and also to the Government attempting, on their own, to produce an objective account of both sides of the case. On these further issues it was necessary to seek the guidance of the Cabinet.

In discussion it was argued that a factual statement about the European Economic Community would be either controversial or platitudinous, and the Government should not make the mistake of the Conservative Government and carry out an extensive distribution to Post Offices of information material about the Community. The campaigning organisations would themselves publish far more material than the public could absorb. The Government's primary duty would be to present, in a pamphlet for general distribution by the Post Office, the terms secured in the renegotiation, with particular reference to the pledges in the Labour Party's Election Manifesto, and to say whether or not the Government judged the terms to be satisfactory. The pamphlet could also explain the mechanics of the referendum.

Different views were expressed about how far this pamphlet should go in presenting and justifying the Government's own position on the general issue of membership. It was argued, on the one hand, that the Government had a clear responsibility to explain and advocate their view on the basic question of membership in the light of the outcome of renegotiation, and that this was implicit in the Manifesto commitments. This should be expressed in as balanced a way as possible, avoiding the most extreme form of presentation to which the campaigning organisations were likely to be prone. It was entirely proper that the Government's own information effort and resources should be directed to supporting the Government's own recommendation. Against this it was argued that the Government should confine their own information activities to a White Paper setting out the new terms and the Government's recommendation. It would be wrong for public money to be spent on stating one side of the case, when the issue of future membership of the Community went wider and had to be decided by the British people as a whole in circumstances in which the media generally were slanted one way.

It was also argued that it was unnecessary, and that it would weaken the impact of the Government's own recommendation, for the Government to distribute with their main pamphlet a statement of both sides of the case, which would emerge strongly enough from other sources during the campaign. It would be sufficient for both campaigning organisations to be allowed free delivery of their statements of case. Against this, it was argued that the Government had a responsibility for the presentation of both sides of the case; and
that, while it would be preferable to avoid a direct responsibility for drafting the necessary texts, the Government should go some way to follow the Australian referenda practice and should, at least, undertake the distribution of the material. Government distribution would avoid the addressing of envelopes by volunteers, which could have a divisive effect in constituency organisations. Thus the two cases could be included in the main Government pamphlet, on the basis of statements to be drafted as far as possible by the outside organisations, but in consultation with the Government.

THE PRIME MINISTER, summing up the discussion, said that insufficient time remained for the Cabinet to reach conclusions on these questions of information policy, or on the other referendum issues raised in C(75) 17 and 18. The Lord President of the Council should now circulate, for consideration by the Cabinet on 20 February, a complete redraft of the proposed White Paper on the arrangements for the referendum, which it was proposed to publish on 26 February. The draft should propose alternative passages on the questions which had not yet been resolved.

The Cabinet -

Invited the Lord President of the Council to circulate a draft White Paper on the referendum arrangements, containing alternative passages on the issues examined in C(75) 16, 17 and 18.

Cabinet Office

11 February 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 20 FEBRUARY 1975
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 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 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

Mr Walter Harrison MP
Treasurer of the Household

SECRETARIAT

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

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1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. The debate on the Motion to take note of the Town and Country Planning (Industrial Development Certificates Exemption) (No. 2) Order, which was to take place on 25 February, would need careful handling because of the strong feelings aroused amongst London Members of Parliament. The Government spokesman would have to show sympathy with the case for considering special measures to improve employment prospects in certain parts of London - for example, the dock areas now awaiting redevelopment.

The Cabinet were informed that a difficult position had been created by an amendment, which had been adopted by the House of Lords, reinstating the Lords Hybrid procedures in cases where private rights were infringed by land acquisition. The Bill was due to have its third reading immediately, and the intention was that Commons consideration of Lords amendments should take place on 26 February. If the House of Commons disagreed with the amendment which had been made it was by no means certain that the House of Lords would acquiesce. It had been suggested that a compromise might be found under which the hybrid procedures would continue, subject to a strict time limit; but the Ministers concerned had reservations about this because of the delay which would result. It must however be borne in mind that substantially greater delay would arise from the fact that Orders for the acquisition of land would require affirmative resolution and therefore could not at present be made while Parliament was in recess. It was however possible that this difficulty could be overcome by an amendment of the Standing Orders of the House of Lords, though this would not be practicable unless the hybrid procedures were restored. It was for consideration whether there should be a short postponement of the Bill's third reading, so as to allow time for the Ministers concerned to decide how best to proceed. Whatever conclusions were reached would have implications for other legislation - for example, the Industry Bill.

THE PRIME MINISTER, summing up a brief discussion, said that the issues involved required further examination. The Lord President, in consultation with the other Ministers concerned, should therefore consider urgently how to proceed and inform him of the conclusions reached.

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, in consultation with the Secretaries of State for Energy, Industry and Scotland, the Lord Privy Seal, the Deputy Chief Whip and the Chief Whip, House of Lords, to proceed as indicated in the Prime Minister’s summing up.

The Cabinet were informed that problems had arisen in connection with an amendment recently adopted by the House of Commons, against the Government’s advice, which was intended to raise the earnings limit by stages to a substantially higher level. The amendment was in fact defective and would have the effect of abolishing the earnings limit altogether after 1977 or 1978. It was therefore proposed to put down an amendment in the House of Lords which would have the effect of securing what the House of Commons had in fact intended - ie to raise the earnings limit by stages to £50 and then enable it to remain at that level unless and until varied by Regulations made under existing powers. There was some danger that such an amendment might provoke a counter-amendment, which could be carried, providing for the immediate abolition of the earnings limit, but on balance this risk seemed worth running.

The Cabinet –

3. Took note.

The Cabinet considered the handling of the debate, planned for 27 February, on the European Economic Community (EEC) draft regulations providing for the establishment of a Regional Fund.

The present intention was that the debate should be on a Motion to take note of the Commission’s documents and of further developments to be brought to the attention of the House; but it was argued that a debate on this basis would be inappropriate because final decisions, which would be effective for the next three years, were expected to be taken at the meeting of the Council of Ministers which was being held at the beginning of March, so that the matter would not again be coming before the House of Commons. The House should therefore be given an opportunity of recording a definite decision on the merits of the proposals. Objection could be raised to them on the grounds that the European Commission would have power to supervise some aspects of British regional policy, and that it would not be possible to make use of the Fund for meeting expenditure on some
of the Government's regional policies. In these circumstances a
debate on a modified "take note" Motion was bound to be regarded
as a procedural device intended to prevent the House of Commons
from recording a decision, and therefore to make the proceedings
more difficult than they need be.

As against this, it was argued that although a case could in principle
be made out for holding the debate on a Motion expressing approval
of the proposals, this course could not properly be adopted in
advance of the receipt of the forthcoming report of the Procedure
Committee. It would be undesirable to seek to defer consideration
of the proposals by the Council of Ministers until after that report had
been received, because of the importance which some members of
the Community, in particular Ireland and Italy, attached to the early
establishment of the Regional Fund. But the proposed terms of the
Motion were in fact wholly proper: there could be no objection to
the House of Commons being asked to take note of revised proposals
which were approved by the relevant Ministers, following
negotiations during which they had acted in accordance with objec­tives
which had been agreed by the Cabinet. As regards the
objections of policy, some relatively minor changes could be made,
without much difficulty, which would enable the regulations to operate
satisfactorily.

THE PRIME MINISTER, summing up the discussion, said that the
establishment of a Regional Fund was not of major importance to us;
but it would be undesirable to seek to delay matters in view of the
importance which some other members of the Community attached
to it. This was not a subject which was at issue in renegotiation
and it had not been referred to in the Labour Party's Election
Manifesto. Moreover, it appeared that it would be possible to make
the relatively small administrative changes which would enable the
Community regulations to operate satisfactorily. On that basis,
and having regard to the modifications to the Commission's original
proposals which had been secured as a result of recent negotiations,
it would be appropriate that the debate in the House of Commons
should, as proposed, be on the basis of a Motion to take note of the
Commission's documents and of further developments brought to the
attention of the House.

The Cabinet -

4. Took note, with approval, of the Prime
Minister's summing up of their discussion.
THE PRIME MINISTER said that the election of a new Leader of the Opposition was likely to create a changed position in Parliament, which could make the handling of Government business more difficult. It was not in the Government's interest to bring about a confrontation and he proposed to continue his practice of answering Questions in the spirit in which they had been asked. It would be desirable in all Parliamentary proceedings to concentrate discussion on policy questions and to seek to elicit from the Opposition what their own policies were on the subject under discussion. This was likely to be particularly important in relation to economic and monetary matters where divisions among Opposition supporters might become apparent.

The Cabinet -

5. Took note, with approval, of the Prime Minister's statement.
THE PRIME MINISTER said that he and the Foreign and Commonwealth Secretary had enjoyed an exceptionally warm and attentive reception throughout their recent visit to the Soviet Union. The Joint Statement which he and Mr Brezhnev had signed at the end of the visit was a substantial and important document. It was clear that the Soviet leadership had taken a political decision to improve their relations with us both on grounds of mutual bilateral interest and as part of their policy of detente with the West. They had expressed the wish to widen contacts between the two countries, and not only at the higher levels. The prospects for increasing our exports to the Soviet Union had been enhanced. We had not come under pressure to make concessions which could be damaging to the interests of our allies. An incidental but not unimportant benefit was that Mr Brezhnev had been led to redefine the expression "peaceful co-existence" which had hitherto formed part of the jargon of the international class struggle. This change was reflected in the text of the Joint Statement.

The Cabinet -

Took note, with approval, of the Prime Minister's statement.
3. The Cabinet had before them a memorandum by the Lord President of the Council (C(75) 19), to which was attached a draft White Paper on the referendum about membership of the European Economic Community (EEC).

THE LORD PRESIDENT said that the draft White Paper took account of the previous discussions in Cabinet about the referendum. A number of sections included alternative passages in order to enable the Cabinet to reach a conclusion on the questions which had not previously been resolved. The draft put forward three alternative versions of the wording on the ballot paper. On the Government's own information activities, the draft had been prepared on the basis that there was agreement that the Government would issue a popular version of the White Paper on the outcome of the renegotiation and on the Government's recommendation, together with an explanation of the referendum arrangements. The Cabinet now needed to decide whether in addition the Government should issue a factual pamphlet about the EEC and statements of the opposite points of view about membership of the EEC. The Cabinet would also wish to consider the proposals to be made in respect of the activities of outside bodies. Subject to decisions on these points, he proposed that the White Paper should be published on 26 February, with a view to a debate in the House of Commons on 6 March or early in the week beginning 10 March.

In discussion of the wording on the ballot paper it was argued that the question on the ballot paper would be more neutral if it asked whether we should "be" rather than "stay" in the Common Market, as in the third version in the draft. But "be" was misleading, since it might suggest that the question was whether we should have joined the EEC in the first place, and "Common Market" might imply that we could opt out of particular aspects of the Community, such as the common agricultural policy. On balance it seemed preferable that the question should ask whether "the United Kingdom should stay in the European Community", as in the second version in the draft. This version represented the balance of view among the organisations which the Lord President had consulted. The alternatives, together with a number of other variants, would no doubt be raised in the debates in Parliament.

Discussion of Government Information activities showed substantial agreement with the view that the Government should issue a popular version of the proposed White Paper explaining the outcome of the renegotiation and the Government's recommendation. This popular version should also explain the mechanics of the referendum. In addition the Government should ensure that statements giving the opposing points of view were readily available to the voters. These statements should, if possible, appear in
the name of the two umbrella organisations in the campaign. It seemed unnecessary to issue separate material giving factual information about the Community.

There was a difference of view on the extent and form of the material to be distributed to each household. It was argued that it was inappropriate for the popular version of the White Paper to be distributed in this way. On the analogy of a General Election, each household should be given a statement of view by the opposing sides; if, in addition, the Government's recommendation was included, the course advocated by the Government would appear to receive twice the publicity. Against this, it was argued that the analogy of a General Election was not entirely apt. The Government had conducted the renegotiation, and it would be quite wrong if a Government distribution of material to each household did not include the Government's own account of the terms they had secured and of the conclusions they drew. The campaigning organisations would tend to concentrate on the basic issue of membership: the Government were in the best position to explain to the electorate the terms which had been renegotiated. On balance, therefore, the distribution to households should include a popular version of the White Paper, together with an explanation of the mechanics of the referendum. The statements by the campaigning organisations setting out the two sides of the case should be delivered at the same time, but not included in the same document as the popular version of the White Paper.

In discussion of absent voting it was pointed out that many members of the Services who were abroad would in practice not be registered to vote and would be excluded from the referendum. Representations had also been made on behalf of other people working abroad, not only in EEC countries. Although there appeared to be practical difficulties in dealing with these cases, further consideration should be given to the possibility of making some arrangement to give them postal votes. There could also be pressure for postal votes for people absent on holiday, particularly if the referendum timetable slipped. Rather than prolong the uncertainty by deferring the referendum until after the summer holidays, it might be advisable to keep open the option of the July date, though the concession of a postal vote to holiday-makers could have repercussions for elections generally.

It was argued that so far as the information activities of outside bodies were concerned great care should be taken to prevent subsequent resentment over the referendum result on the ground that one of the two campaigning organisations had greater resources than the other. Although no general view on this point had emerged from the bodies so far consulted, a strong case could be made out
for giving a small Exchequer subvention to the two sides in the campaign, provided that the organisations to receive the money could be satisfactorily identified. The question should be raised on this basis in the White Paper, and the Treasury should now be consulted about the amount of money to be allocated.

In addition the White Paper should propose that the major organisations and interests should disclose the money they had both received and spent for the purposes of the campaign. This passage should be in sufficiently general terms to cover a possible requirement for companies to disclose such information to their shareholders.

In view of these measures it was not necessary to propose a ban on paid advertisements. The Lord President's consultations had shown no general support for such a ban. Television advertisements would be prohibited under existing legislation.

It was reported that satisfactory discussions were taking place, within the inter-party machinery for political broadcasts, about the "referendum broadcasts" which the British Broadcasting Corporation and the Independent Broadcasting Authority proposed to arrange during the campaign. A provisional bid had been made for Ministerial broadcasts, which would involve a right of reply. The broadcasting organisations had confirmed that they would take special care in their news and feature programmes to ensure a balance between the opposing points of view, and they would welcome the formulation of ground rules by the inter-party committee.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the White Paper should propose the second version in C(75) 19 of the wording to be included on the ballot paper. The Lord President should indicate, in his lobby conference and in the debate in the House of Commons, that this version represented the broad consensus of view which had emerged from his consultations, but should mention the main variants which had been suggested and which would no doubt be discussed in the debate. The White Paper should state that the Government proposed to distribute to each household a popular version of the White Paper giving the outcome of the renegotiations and the Government's recommendation, and also an explanation of the mechanics of the referendum; and that, at the same time, but not in the same document, each household would receive a statement written by the campaigning organisations of the opposing points of view on membership of the EEC. The White Paper should not exclude the possibility of postal voting by Servicemen and others working abroad. The Home Secretary, in consultation with the Lord President and the other Ministers concerned, should consider whether a practicable system could be
devised for these cases; he should also consider contingency planning on a confidential basis for postal votes for holiday-makers, so that a July date for the referendum did not have to be excluded, though the repercussions of this extension of postal voting would need to be carefully considered. The White Paper should indicate that the question of a subvention for the campaigning organisations was being examined, but that such a subvention would depend on satisfactory arrangements being made to identify the recipient organisations. The Lord President should pursue this matter further in consultation with his colleagues directly concerned. The paragraphs about disclosure of expenditure should be written in slightly more general terms, to take account of the points made in discussion. The White Paper should not propose any ban on paid advertisements beyond the existing ban in respect of television advertisements. Subject to amendments to meet these points and other drafting points, the Lord President should arrange for the publication of the White Paper on 26 February.

The Cabinet -

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

2. Authorised the publication of the White Paper attached to C(75) 19, amended in accordance with the Prime Minister's summing up.

Cabinet Office

20 February 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 27 FEBRUARY 1975
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 (Items 1-4)

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 (Items 1-4)

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
(Items 1-4)

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 4)
Mr B C Cubbon (Item 4)
Mr H F T Smith (Items 1, 2 and 5)
Mr P Benner (Item 1)
Mr J Roberts (Item 5)
Mr R J O'Neill (Items 2-4)

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PARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. It would be necessary to maintain a running three-line Whip throughout the proceedings on the Report Stage of the Finance Bill, which would be occupying the House from 3 to 6 March. It was essential that the Bill should reach the Statute Book not later than 14 March; but it was uncertain how far the goodwill of the Opposition could now be relied on and therefore the timetable might prove very difficult. It was reported that it would be desirable to find time for the Commons consideration of the Lords' amendments to the Social Security Benefits Bill. Until these had been dealt with it would not be possible to finalise the Social Security Consolidation measure although this ought to be published in advance of the Second Reading of the Better Pensions Bill, which, for operational reasons, should not take place later than the week beginning 10 March. The Cabinet were however informed that there would be great difficulty in finding the necessary time during the following week; moreover, there were signs that some rearrangement of the business tentatively planned for the week beginning 10 March might prove necessary.
2. THE CHANCELLOR OF THE EXCHEQUER said that in the previous year the Cabinet had agreed to the conclusion of an arrangement to reschedule Chile's debts for 1973 and 1974. He proposed that we should refuse to follow a similar course this year. Inflation in Chile appeared recently to have been running at about 600 per cent a year. The Chilean regime were concerned about international views of their credit-worthiness. If we could persuade some of the other Western creditors, particularly Germany, to join us in refusing to enter into a rescheduling agreement this year, Chile's credit would be affected in the eyes of the World Bank and other international organisations. This could provide us with a means of pressure on the Chilean regime to amend their oppressive domestic policies. The amount of money we would forgo in the current year would be only of the order of £1 million. We would not be precluded from resuming rescheduling arrangements next year if this then seemed desirable.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the United States was unlikely to join us in the policy we proposed; and if Chilean hopes of a substantial loan from Iran were realised, the action which it was proposed we should take would have little effect on Chile's credit-worthiness. He nevertheless supported the proposal and if it were approved he would encourage other Western creditors to take a similar line.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that we should not take part in rescheduling Chile's debts in the current year, and that the Foreign and Commonwealth Secretary would seek the support of other Western creditors.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion,
THE PRIME MINISTER said that earlier in the week the Ministerial Committee on Economic Strategy had reviewed the Government's counter-inflation policy and had agreed upon a new drive to get down the rate of pay increases. This posture, which was consistent with the freedom of collective bargaining implied by the Social Contract, meant that the Government would have to give more leadership on pay, taking a rather bigger part of the responsibility it already shared with the Trades Union Congress (TUC). Ministers would need to make renewed reference in public speeches to the dangers of excessive pay increases for employment at home and competitiveness abroad. The Government would have to insist that the TUC guidelines should be honoured in the spirit as well as in the letter; in particular the exceptions allowed by the guidelines should not be used to make nonsense of their main principle that any general settlements, including thresholds, should be sufficient only to cover the increase in the Retail Price Index in the preceding 12 months. The Chancellor of the Exchequer, in agreement with the Secretary of State for Employment, was preparing background notes on which Ministers could draw for their speeches and would send these to the Lord President in good time for the weekend. It was important however that, in speaking on this subject, Ministers should avoid any speculation as to what the Government would do if their appeal went unheeded and settlements continued at too high a rate. Suggestions were appearing in the Press that some Ministers favoured an alternative policy; but no such alternative policy was in sight. A statutory policy had been shown not to work and massive deflation was unacceptable. There was also the fact that speculation about alternative fallback policies led inevitably to attempts to forestall them. This applied both to talk of a statutory incomes policy which encouraged unions to put in large claims now and to arguments for import deposits which stimulated imports in the short run. Ministers should therefore adhere strictly to emphasising the Government's existing policies and should not speculate about alternative ones: if any Minister wished to go further than the notes being provided by the Chancellor he should clear his speech with the latter.

In discussion the following points were made -

a. It would be helpful to the Government's new posture if it were pointed out that the breakdown of the Social Contract would lead inevitably to increased unemployment and a statutory policy. On the other hand if this point were made explicitly it would encourage speculation of the kind mentioned. It should be possible to talk positively about the problem of inflation and the Government's efforts to deal with it without seeming to envisage alternative and unacceptable solutions.
b. There should be similar restraint from speculation about the form which the Budget would take. The latter could raise major issues of economic strategy and Ministers would have an opportunity of discussing them collectively: but this discussion must be kept within Government.

c. In conducting their new drive to get down the rate of pay increases Ministers would need to avoid appearing to criticise the efforts which the TUC were making to secure adherence to the Social Contract. The Government had in fact recently had an excellent meeting with the TUC in the Liaison Committee: and there was real evidence that some major union leaders were now actively lending their support to the General Secretary's efforts.

d. The distinction and the relationship between the short-term problem of pay inflation and the longer term problem of insufficient investment had to be borne carefully in mind: and the role of the National Enterprise Board could be usefully stressed here.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the decision of the Ministerial Committee on Economic Strategy and encouraged Ministers to speak publicly on the need to get down the rate of pay increases subject to clearing with the Chancellor of the Exchequer any points not covered in the notes which he was providing and to avoiding speculation about any alternative policies.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
4. The Cabinet had before them a memorandum by the Prime Minister (C(75) 23) on the issues of regional aids and steel in the renegotiation of the terms of British membership of the European Economic Community (EEC).

THE PRIME MINISTER said that the Committee on European Community Strategy (ECS) had reviewed the progress made in respect of regional aids and the steel industry in pursuing the Government's renegotiation objective of "the retention by Parliament of those powers over the British economy needed to pursue effective regional, industrial and fiscal policies". The Cabinet had decided in September 1974 that Community rules for the co-ordination of national regional aids were in our interest, provided that they were compatible with the need to be free to follow the regional policies we required. The Cabinet had laid down five specific principles which the Community rules should satisfy. We had held intensive discussions with the EEC Commission on the new rules, and these had been adopted by the Commission on the previous day. Member Governments would shortly be invited to record their agreement to a Communication setting out the rules, by passing a resolution in the Council of Ministers. The new rules met the five principles on which the Cabinet had agreed. We must accept that the EEC Treaty gave the Commission certain formal powers in respect of regional aid systems; but in their Communication the Commission declared that there would in practice be no interference with the regional policies the Government needed to pursue, and for these the Government would remain wholly answerable to Parliament. The political reality was that the member States in the Council of Ministers could determine the effective substance of Community control over regional aids and other questions. The majority of ECS accordingly took the view that the Manifesto aim had been met in relation to regional policies, and that the Commission's Communication should accordingly be accepted in the Council of Ministers, subject to the need for prior Parliamentary debates, which should take place on "take note" motions.

The issue of control over steel presented special difficulty, because the relevant Community rules rested almost entirely on the provisions of the European Coal and Steel Community (ECSC) Treaty, which gave to the Commission the role of acting as the custodian of the Treaty provisions. From the pragmatic angle our experience of the ECSC Treaty had been to some extent reassuring. We had been able to influence the British Steel Corporation (BSC) over price increases. We had also had experience of several cases involving the Commission's consent under the Treaty to merger cases in the steel industry, but judgment on the operation of the Treaty in the mergers field must be reserved until the current case of Johnson, Firth, Brown had been completed.
satisfactorily. There was no doubt that the Community accepted the principle of nationalisation as such. Control over investment in the public sector presented no problem, but it appeared that the Treaty would not permit us to reassume the powers which had been contained in section 15 of the Iron and Steel Act 1967 to control investment in the private sector. The Government therefore did not have the power, and nor had the Commission, to ban any private steel project which might be judged undesirable. At the outset of renegotiation the Government had made clear that they would feel free to propose Treaty amendments if it emerged that these were necessary. It was clear that we needed an overhaul of the ECSC Treaty, going wider than the investment provisions. We could not hope to reach agreement in the Community on revision of the Treaty within the renegotiation timescale, and the other member Governments would not be ready to commit themselves to this process until they knew that the United Kingdom was remaining in the Community. The majority of ECS had therefore concluded that we should give notice now to the other Governments that if, as a result of the referendum, the United Kingdom stayed in the EEC, we should press for an overhaul of the ECSC Treaty, particularly in relation to the issues which had concerned us.

In discussion it was maintained that the new rules formulated by the Commission would leave all existing forms and levels of aid in the United Kingdom untouched, with the single exception of certain aids granted in Scotland by the Highlands and Islands Development Board for which the Commission had already undertaken to grant us a derogation. The purpose of the new rules was not to prevent the United Kingdom or other Governments from granting assistance where required to their least favoured regions, but to control the level of subsidies granted in the more favoured areas of the Community and to prevent multinational companies from playing off one Government against another in order to obtain subsidies for investment. The experience of the other member countries of the Community over the past 17 years was that they had been able to continue to follow their own chosen regional policies, and the Labour Party as an Internationalist Party should welcome any arrangements which helped the economic development of any disadvantaged area of the Community, such as southern Italy. If the United Kingdom left the Community, it was probable that, in any future trading agreement with the EEC, we should be obliged to accept rules concerning the level of state aids, but that, so far from being able to influence these rules as we had been able to do as a Community member, they would be imposed on us. In the circumstances of the world today national sovereignty was no longer absolute; some surrender of sovereignty was inevitable within the Community, and there was nothing objectionable in itself in the enforceability of common rules. The decisive test was not what
the text of the EEC Treaty might say about the powers of the Commission, but the way in which the Community operated in practice. From that aspect we could be confident that effective power would continue to rest through the Council of Ministers with member Governments, which would remain answerable to their national Parliaments.

On the other hand, it was argued that it could not be maintained that we could disregard the text of the EEC Treaty on the grounds that its rules and provisions were not in fact observed. This was not the true situation, and the record of a recent conversation between the Minister of State for Foreign and Commonwealth Affairs and a German Minister confirmed that we were at the mercy of the Commission whenever they chose to exercise their powers. Under the Treaty, any power of Parliamentary control over the Commission lay not with national Parliaments but with the European Assembly. The new rules, which were temporary in character, did not conflict with our present regional aid policies, but they did nothing to restore in this area the sovereignty of Parliament, which the Government had pledged themselves to regain in their February 1974 Manifesto. This had serious implications for the continuation of democracy. The issue at stake was whether Governments were to remain not the "best judges", as the Commission's document suggested but the supreme judges of the policies they needed to implement. The new rules could not be accepted as satisfactory unless it was established that both in substance and in law the last word did not remain with the Commission.

In further discussion it was suggested that, while the new rules for the co-ordination of regional aids raised questions of major importance in renegotiation, this was not the occasion for the general discussion of the issue of sovereignty which the Cabinet would be having in due course. This issue was at present under consideration by the Legislation Committee. At the same time the Cabinet could not decide whether the renegotiation issue of regional policy had been satisfactorily settled in advance of the general consideration of whether renegotiation as a whole had been successful; and the Parliamentary debates on the new co-ordination rules should also be deferred. The Foreign and Commonwealth Secretary would be expected to take up a position in the Council of Ministers, particularly because of the connection which some countries saw between the co-ordination rules and the provision of money for the Regional Development Fund. But a final decision would not be taken by the Council of Ministers until their April meeting.
The discussion then turned to the issue of steel. It was suggested that it was most unsatisfactory that this question had been left unresolved until so late in the process of renegotiation. The renegotiation of our terms of membership could not be regarded as complete until the problem of steel had been solved. But it was pointed out that the issue of steel had been drawn specifically to the attention of other EEC Governments as a renegotiation objective, for example by the Prime Minister at the meeting of Heads of Government in Paris in December 1974. They were therefore already on notice that we had requirements. The greatest difficulty concerned the power to control private sector steel investment, and one solution would be for the Government to inform Parliament at an early date that they proposed to re-assume through legislation powers equivalent to those in section 15 of the Iron and Steel Act 1967. An alternative course might be for us to put the other EEC Governments on notice, not that we should necessarily wish to amend the Treaty, but that we proposed to re-assume powers to control investment in the private sector. They might acknowledge that this would require amendment of the Treaty, or they might be ready to find some alternative method of meeting our wishes which would not require Treaty amendment. Until this approach was made it was impossible to demonstrate that an attempt had been made to secure the Manifesto objective. Other EEC Governments, for example, appeared to have been successful in preventing undesirable investment despite the Treaty. Consideration of the changes we might want in the Treaty should also extend to the basing point system for establishing steel prices; at some time in the future this could threaten the interests of those parts of the United Kingdom distant from steel manufacturing plants in the event of steel closures, for example in Scotland.

THE PRIME MINISTER, summing up the discussion, said that the Council of Ministers would not be taking a final decision on regional aids at their next meeting. The Foreign and Commonwealth Secretary could indicate that he was content with the Communication from the Commission as an element in the total renegotiation package on which the Government still had to take a decision. The same line would be taken at the meeting of the European Council at Dublin on 10-11 March. Following that meeting, the Cabinet would resume their consideration of regional aids in the context of a general stocktaking of renegotiation, together with the conclusions reached by the Legislation Committee on the general issue of the sovereignty of Parliament. The co-ordination rules should not be debated until after this further Cabinet discussion, although the debates would have to take place before the April meeting of the Council of Ministers at which Governments would be expected to give their approval to the rules by a Council Resolution. On steel, the Cabinet were agreed that action was needed to reassume powers...
to control private sector steel investment, and the Foreign and Commonwealth Secretary should give further consideration in the light of the discussion to the terms in which our requirements should be put before other EEC Governments. The Cabinet should also return to this subject on the basis of a further report by the Foreign and Commonwealth Secretary, when they reviewed the outcome of renegotiation after the Dublin meeting.

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 be guided accordingly at the Council of Ministers on the question of the co-ordination of regional aids.
5. The Cabinet considered a memorandum by the Secretary of State for Defence (C(75) 21) to which was attached a draft of the Statement on the Defence Estimates 1975.

THE SECRETARY OF STATE FOR DEFENCE said that the White Paper was longer than usual because of the need to give full coverage to the Defence Review in the light of the results of consultations with our allies and to give additional information about policy and strategic matters as had been recommended by the Select Committee on Expenditure. Subject to the approval of his colleagues he proposed to publish the Statement on 19 March.

In discussion it was argued that many of the Government's supporters were disappointed that greater savings were not being made in defence expenditure. They would be critical of the implication in the White Paper that firm decisions had been taken on the level of defence expenditure for the next 5 and even 10 years. The possibility of further reductions in public expenditure could not be excluded and the White Paper should describe the Defence Budget figures as interim or provisional. On the other hand it was strongly urged that the White Paper reflected decisions taken by the Cabinet in the context of the Defence Review and of the Public Expenditure Survey. All public expenditure programmes were, of course, liable to review but it would be wrong to single out the defence programme in this context. If the Defence Review decisions were described as provisional it would be widely assumed that a further review was impending and this would have very damaging consequences for the confidence of the Services, of the defence industry, and of our allies who considered that our cuts had already gone too far.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had approved the Defence Review proposals subject to the outcome of international consultation; this consultation had not shown the need for any change. The Review was therefore confirmed. The Chancellor of the Exchequer had however reminded the Cabinet that it might well become necessary at some point to require further substantial cuts in public expenditure, including defence expenditure.

Continuing, the Prime Minister said that preparation for the publication of the 1975 Statement on the Defence Estimates should proceed as proposed by the Secretary of State for Defence but before it was published further consideration should be given to the question of how the defence expenditure figures should be expressed in the light of the fact that the White Paper on Public Expenditure to 1978-79 (Cmnd 5879) had noted that the figures for 1977-78 and 1978-79 were provisional.
The Cabinet -

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

Cabinet Office

27 February 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 6 MARCH 1975
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 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 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

ALSO PRESENT

The Rt Hon Roy Hattersley MP
Minister of State for Foreign and Commonwealth Affairs
(Items 2 and 3)

SECRETARIAT

Sir John Hunt
Mr B C Cubbon (Item 3)
Mr H F T Smith (Item 2)
Mr P Benner (Item 1)
Mr J Roberts (Item 2)
Mr E J G Smith (Item 1)

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1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. The Speaker had agreed that the debate on the White Paper about the referendum on United Kingdom membership of the European Community, which was planned for 11 March, might take place on the basis of a Motion for the adjournment, despite the fact that legislation was involved.

It was proposed that the House should rise for the Easter Recess on 27 March and resume on 7 April.

THE PRIME MINISTER said that the British Broadcasting Corporation had recently changed their practice by inviting Ministers to appear in the programme "Any Questions". There were some attractions in accepting such invitations: the programme would provide another platform for the public presentation of the Government's policies, and Ministers could make better use of it for this purpose than could backbench Members of Parliament, to whom invitations had hitherto normally been limited. Moreover, it might afford a useful opportunity of drawing attention to the recent apparent shift in the policy of the Conservative Party towards allowing workers to be laid off when firms were in financial difficulties. But these attractions were more than outweighed by the danger that Ministers would be faced with questions going outside their own areas of responsibility. Furthermore, because of the impossibility of giving stonewalling or defensive replies on a programme of this kind, Ministers might be led into attempting to deal off-the-cuff with matters about which they were not fully briefed. On balance, therefore, it would be best for invitations to take part in this programme to be turned down.

2. The Cabinet had before them a memorandum by the Secretary of State for Defence (C(75) 21) to which was attached a draft of the Statement on the Defence Estimates 1975, together with a minute of 4 March 1975 from the Prime Minister to the Secretary of State for Defence.

THE PRIME MINISTER recalled that at their last meeting the Cabinet had agreed that further consideration should be given to the question of how the defence expenditure figures should be expressed in the Defence White Paper in the light of the fact that the White Paper on Public Expenditure to 1978-79 (Cmnd 5879) had noted that the figures from 1976-77 were provisional. This point had been examined; the figures in the Public Expenditure White Paper were described as provisional only pending final Defence Review decisions after completion of the process of consultation with the allies. It would not
therefore be appropriate to describe the figures as provisional in the Defence White Paper. This did not mean that the defence budget figures were now immutable; all public expenditure programmes were liable to review and the defence programme was no exception. Indeed this point had been expressly minuted during the previous Cabinet discussion.

The outcome of consultation with our allies was summarised in his minute of 4 March. The North Atlantic Treaty Organisation (NATO) had expressed considerable disquiet at our proposed reductions particularly in the Mediterranean. Nevertheless, the Defence and Oversea Policy Committee had concluded that we should stand firm on the basic proposals we had put to our allies and only offer certain limited measures to go some way towards meeting the concern which NATO had expressed. These measures, which were described in Chapter I of the Defence White Paper, entailed no increase in the agreed force levels, and the small expenditure involved would have to be met from within the agreed defence budget. Nevertheless in considering the Defence White Paper the Cabinet should note that in this marginal sense it went beyond the proposals which Cabinet had approved for discussion with our allies.

The Cabinet -

Took note, with approval, of the Prime Minister's statement and approved the text of the Statement on the Defence Estimates 1975.
3. THE PRIME MINISTER said that the Foreign and Commonwealth Secretary and he would be attending the Dublin meeting of the European Council on 10-11 March. The main renegotiation items for discussion in Dublin would be our contribution to the Community budget and access for New Zealand dairy products. On the former a good deal of progress was still required. As regards New Zealand it was clear that they were more interested in price levels than in quantity, but the rate of decline of quantity remained an issue.

We had also given notice of our need for assured freedom to control private investment in the steel industry, if necessary involving a review of the Treaty of Paris if the result of the referendum was that we remained a member of the European Community. At Dublin the Foreign and Commonwealth Secretary and he, of course, be negotiating strictly within the terms of the Manifesto. It was impossible to foresee whether sufficient progress would be made in Dublin to bring the renegotiation process to an end: but, if this were the case, he had given some thought to the situation that would then arise. He had decided that the United Kingdom delegation would do no lobby briefing of any kind. Anything said to the Press should be on the record: and this would be confined to saying that negotiations had gone as far as they could and that he and the Foreign and Commonwealth Secretary would be reporting the results to the Cabinet. He would not say whether, in his view, the terms obtained were good or bad: nor would he say whether he would recommend the Cabinet to accept them or not. A full stocktaking report on the renegotiation process would be circulated to the Cabinet immediately before the weekend of 15-16 March. He envisaged that the Cabinet would meet on Tuesday 18 March to consider their recommendation: and that this would be followed by an early announcement. Following the latter - and if a unanimous recommendation had not been reached - the proposed "agreement to differ" would start. Assuming that this timetable could be achieved he was concerned at the prospect of three months of campaigning on a divisive issue. There might be inducements for the Opposition to restrict obstruction to the Referendum Bill once the Second Reading stage had been completed, and he had asked the Lord President of the Council to consider whether it would be possible to bring forward the date of the referendum. When the Cabinet met to consider their recommendation he would also circulate guidelines within which Ministers would operate the proposed "agreement to differ". It was clearly of the greatest importance to the Government's cohesion as a whole to avoid emotive or personalised campaigning by members of the Government.

In discussion it was suggested that before the meeting of the European Council the Cabinet should consider the position over the whole renegotiation field, so that the opportunity could be taken at Dublin to raise all the matters about which we were still concerned. It could be argued, for example, that our approach to the Common Agricultural Policy (CAP) had not hitherto been sufficiently
fundamental and that we should press for further changes on tariffs and levies in order to improve access for food imports. Also, it was not clear what progress we should make on steel in view of the Treaty provisions, and Ministers had yet to conclude their review of the Parliamentary aspects, which raised questions about the Treaty of Rome itself. But it was pointed out that the renegotiation had been conducted throughout on the basis of a number of specific and agreed objectives. The Dublin meeting would be concerned with the outstanding points, including the New Zealand and budgetary questions, on which a decision was essential before the Government could reach a decision. It would not be justifiable to raise new issues at this stage or to reopen ones that had been settled. Moreover if we remained members of the Community, we would continue to pursue a number of our objectives further in the continuing business of the Community - for example in the stocktaking of the CAP and in the multilateral trade negotiations - and it was clear that our negotiating strength in the Community would be substantial. The renegotiation had been linked from the outset with the continuing business of the Community: and if we remained a member reform of the Community would not stop with the end of renegotiation.

It was also urged that before the Cabinet took a final decision on the outcome of renegotiation after the Dublin meeting, the Parliamentary Labour Party (PLP) should be given an opportunity to express views. A PLP meeting, to which the Government could not give a clear lead, might present difficulties, particularly for the Foreign and Commonwealth Secretary, who as the Minister conducting the renegotiation would be expected to have formed a view on whether he had been successful. But the importance and sensitivity of the issue made it necessary to find some acceptable way of involving the PLP before the Cabinet decision was reached. It should be possible to present the outcome in the form of a general checklist, such as the Prime Minister had given in his speech to the London Labour Mayors on 7 December. A PLP meeting after the Cabinet decision could raise problems if any Ministers at that time differed from the majority view.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet and Ministerial Committees had held a number of full discussions about the conduct of renegotiation and about our objectives in the different sectors. The matters to be raised at Dublin would be the small number of outstanding items which he had mentioned. It was not necessary for the Cabinet to have a further discussion before the meeting. After the Dublin meeting he hoped that it would be clear how far the other members of the Community were prepared to go in meeting our renegotiation objectives, but no agreement would be reached there about the outcome of the renegotiation as a whole and he would speak to the Press on the lines he had proposed. The time for
the Cabinet to review the renegotiation package as a whole would therefore come after the Dublin meeting. The Cabinet agreed that the PLP should meet to express views, but without a resolution or vote, on the outcome of renegotiation before the Cabinet took their final decision. The Cabinet should therefore start their discussion on Monday 17 March with an elucidation and stocktaking of the outcome under each item of the Manifesto. He would arrange for the papers before the Cabinet also to include a report on the consequences and implications of withdrawal from the Community. He would himself open the discussion at a meeting of the PLP the same evening, with a presentation of the outcome of renegotiation, without giving any recommendation. The Cabinet would meet again on 18 March to evaluate the package as a whole and reach their decision.

The Cabinet -

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

Cabinet Office

6 March 1975
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
THURSDAY 13 MARCH 1975
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 1-4)

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 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

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
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THE PRIME MINISTER recalled that it had been agreed that the Foreign and Commonwealth Secretary and he should present to the Cabinet on Monday 17 March a report of the results of the renegotiation of our terms of membership of the European Economic Community (EEC); and that they should give a similar account that evening to the back-bench members of the Parliamentary Labour Party. He had now made arrangements to meet early that evening all members of the Government other than members of the Cabinet, who otherwise would not have an opportunity to be given an account of the results of the renegotiation and to express views on them. The Cabinet would then at a further meeting the following day decide what recommendation to make to the British people.

In discussion it was suggested that since the views of most members of the Cabinet were now public knowledge they should be free to express differing opinions forthwith. On the other hand it was emphasised that the Cabinet needed to reach their decision after examination of the factual results of renegotiation and hearing the views of their supporters. This could not be before Tuesday 18 March and until then there was no collective decision to differ from.

THE PRIME MINISTER, summing up a brief discussion, said that it would be necessary for the Cabinet, after considering a factual presentation of the results of renegotiation, to reach a formal decision on their recommendation to the British people. He would aim to announce the Government's decision on Tuesday 18 March or Wednesday 19 March and individual members of the Cabinet would then be free to dissent publicly. But there would then be some three months before the referendum, during which time the Government's normal work must be carried on. He would circulate guidelines under which the agreement to differ would operate, including arrangements to cover the position of those dissenting from the Government's decision when dealing with matters related to EEC issues in Parliament, in the normal processes of Ministerial policy making, and when attending meetings of the EEC Council of Ministers.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
The Cabinet were informed of the business to be taken in the House of Commons during the following week.

The Cabinet were informed that some 420 ancillary staff, all of them industrial civil servants, were on unofficial strike at the Palace of Westminster. They had organised picket lines, which were not being crossed by Civil Service and Post Office van drivers. From now on picketing was to be on a 24-hour basis and this would effectively cut off mail and incoming supplies generally. Services within the Palace of Westminster were deteriorating, and would do so much more rapidly in the near future, to such an extent that Parliament might have to cease work by the middle of the following week. Since the Recess was near, the effect would not be disastrous so far as the legislative programme was concerned; but the wider implications of a closure brought about by unofficial strike action would be very serious indeed.

In discussion it was pointed out that the strike action had arisen from a claim by 180,000 industrial civil servants for the principle of comparability to be applied to their pay as from July 1975 and in the meantime for an interim pay increase to be made. The handling of these claims was to be discussed by the Cabinet separately. Particularly difficult problems were raised by the claim for an interim payment, which would involve a clear breach of the 12-month rule. It was possible that acceptance of comparability would by itself lead to a return to work; but the prospects of this could not be regarded as good. It was argued that it would be undesirable to give way to unofficial strike action, or for the Government to allow it to push them into action which they would not otherwise have thought proper. Discussions with the trade unions concerned had been arranged for the following Monday and it would be unwise to take any precipitate action in the meantime. A serious situation would however arise if Parliament were forced to close down, in particular because it might become a precedent for comparable action to be taken in future, not merely in furtherance of an industrial dispute but as a means of subjecting Parliament to pressure for political purposes. But conditions in the Palace of Westminster might quickly become impossible, in particular because of an increasing hazard to health due to the accumulation of refuse; and it would be wise to make contingency plans for emergency action, perhaps even involving the use of troops. The consequences of such action would however be extremely serious: it would, for example, be liable to cause nationwide official action by the Industrial Civil Service, and there might well be repercussions in services which had not so far been seriously affected (for example, Parliamentary printing). An attempt should therefore be made to explain to the unofficial strikers the serious
implications of the action they were taking; such an approach might have some prospect of success since there were indications that the strikers were not fully aware of the serious implications of their action or even fully informed about its objectives.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet would shortly be giving separate consideration to the pay of industrial civil servants. As regards the dispute currently affecting the Palace of Westminster, they agreed that it was necessary to prevent the closure of Parliament without making unjustified concessions to unofficial strike action. If an early return to normal working could not be secured, emergency action might have to be considered. The Secretary of State for Employment should consider the possibility, perhaps through a very early meeting of the General Purposes Committee of the Trades Union Congress, of arranging for responsible trade union leaders to represent to their members the seriousness of the action being taken and urge an immediate return to normal working. In view of doubts whether the strikers fully understood the implications and objectives of the action they were taking, he should also consider whether it would be useful to seek to arrange a meeting early in the following week at which the situation could be fully explained to them and a return to work urged. But the possibility of continued industrial action could not be excluded, and, despite the normal convention that the Civil Contingencies Unit did not handle matters directly affecting the Palace of Westminster, the Home Secretary should arrange for the Unit to put in hand urgent contingency planning for emergency measures which would enable Parliament to continue to function.

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 consider the questions referred to in the summing up and to report his conclusions to the Prime Minister.

3. Invited the Home Secretary to arrange for the contingency planning of emergency measures to be put in hand by the Civil Contingencies Unit.
4. The Cabinet had before them memoranda by the Lord President of the Council (C(75) 25 and 29) and the Secretary of State for the Home Department (C(75) 28) on the referendum about membership of the European Economic Community.

THE LORD PRESIDENT OF THE COUNCIL said that there were several issues raised in the White Paper on the Referendum (Command 5925) on which final decisions were needed so that work could proceed with the drafting of the Referendum Bill in time for it to be considered by Legislation Committee on 25 March and introduced in the House of Commons before Easter. Five of these issues were considered in the annexes to C(75) 25. He proposed that the wording on the ballot paper suggested in paragraph 10 of Command 5925 should be incorporated in the Bill, which should also provide for the Home Secretary both to appoint a National Returning Officer who would supervise the arrangements for a national count and certify the result and to approve the names of observers at the count. Consideration should be given to a free vote on the Government side on the issue of a national count in Committee. The Bill should provide for grants of equal size, not exceeding £125,000 in each case, to Britain in Europe and the National Referendum Campaign, on condition that they made a return after the poll of all income and expenditure from the date of publication of the Bill to the date of the referendum. Finally the Bill should provide for the Referendum Order, which would adapt the existing electoral machinery, to be made under the Affirmative Resolution procedure. A draft of the Order would be made available before the Second Reading of the Bill, but would not at that stage specify the date of the referendum.

Discussion showed general agreement with these proposals. It was however agreed that the words "the Common Market" should be added in brackets at the end of the Question on the ballot paper so that it would run:

"Do you think that the United Kingdom should stay in the European Community (the Common Market)?"

Further consideration should be given to the appointment under the Referendum Order of independent observers at polling stations. Justices of the Peace might be suitable, except in Northern Ireland. Every effort should be made to secure Royal Assent to the Bill in time for the Referendum Order to be laid, to be debated in both Houses of Parliament, and to come into force before the Whitsun Recess. It was also suggested that there was a need to clarify the arrangements for the circulation to each household of the statements of both sides of the case mentioned in paragraphs 29-30 of the Referendum White Paper; and it was argued that these statements should be separate
documents to the fullest possible extent, though arrangements should be made for simultaneous delivery and for printing the documents in similar layout and format.

In further discussion it was argued that, if it were decided to have a free vote in Committee on the issue of a national count, this should not extend to members of the Government. The Government had reached a decision on the matter and it remained important to emphasise the character of the referendum as a national poll on a national issue: a distinction should be drawn between Government members and backbenchers, as had been done on other issues on which a free vote had been allowed. On the other hand, it was urged that this was an issue on which a free vote on any amendment proposing the alternative arrangements to a national count should also extend to members of the Government, recognising that the Government would be able to give a firm lead about their own view, and that there would be political advantage, both now and in the future, in allowing an entirely free expression of opinion to the House of Commons.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet endorsed the proposals in C(75) 25, subject to adding the words "(the Common Market)" to the Question on the ballot paper and to giving further consideration to the arrangements for appointing scrutineers. The Lord President of the Council should arrange for the Referendum Bill to be considered by Legislation Committee as soon as practicable and introduced before Easter so that it could be carried as quickly as possible through both Houses of Parliament. The Lord President of the Council would indicate the Government's view when the proposal for a national count was discussed in Committee but there should be a free vote which should extend to members of the Government. The statements of both sides of the case to be circulated to each household should be separate documents, though so far as possible of identical format; they should be printed and simultaneously delivered at Government expense; they should avoid the appearance of a Government publication and carry a clear disclaimer of Government responsibility for the contents.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of this part of their discussion.
THE HOME SECRETARY, introducing C(75) 28, said that, in view of the unique circumstances of the referendum, it was most desirable to ensure that there was the greatest possible opportunity for people to register their votes. He therefore proposed that holidaymakers and others away from home on polling day already on the register should be entitled to vote by post; that Service voters (ie members of the Armed Forces and other Crown servants abroad on Government business, together with the families of both groups) who had neglected to register should be given a second opportunity to do so; and that the register should be extended to include other citizens of the United Kingdom and Colonies living abroad who could demonstrate a continuing connection with the United Kingdom. He was satisfied that the various practical difficulties could be overcome.

THE LORD PRESIDENT OF THE COUNCIL said that, as he had indicated in C(75) 29, he was strongly opposed to these proposals. They would represent a substantial departure from the arrangements used at General Elections; they were opposed by many members of the Labour Party inside and outside Parliament; and they would create serious anomalies. He accordingly proposed that the electoral register (apart from the addition of peers) and the arrangements for absent voting in the referendum should be the same as in a General Election.

Discussion showed that the Cabinet were divided on the Home Secretary's proposals as a whole. There was however a good deal of support for the proposal as regards Service voters and Government servants serving abroad who fell into the same category, provided that satisfactory machinery could be devised in time. The other proposals raised greater difficulties. It was argued in their favour that the referendum was unique and could be regarded as different in principle from a General Election; and that on a national issue such as European Community membership every effort should be made to ensure the widest possible franchise embracing all those at home and abroad who could reasonably be regarded as entitled to vote. Against this, it was strongly urged that, whatever their merits in principle, the proposals would create great practical problems for the authorities at home and abroad and be bound to lead to serious anomalies. Moreover, if they were adopted for the referendum there would be strong pressure for their adoption at General Elections.

THE PRIME MINISTER, summing up the discussion, said that a majority of the Cabinet took the view that the electoral register (apart from the addition of peers) and the arrangements for absent voting in the referendum should in general be the same as for a General Election. The Cabinet accordingly rejected the proposals for postal votes for those on holiday and others away from home and
also rejected the proposal to extend the register to include certain British subjects overseas, other than Service voters. On Service voters, including Government servants abroad, they took the view that they should be enabled to register and vote provided that satisfactory machinery could be devised in time. To this end the Cabinet Office, in consultation with officials in the other Departments concerned, should carry out an urgent feasibility study for consideration by the Cabinet as soon as possible.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion.
5. THE HOME SECRETARY said that the Glasgow Corporation had asked the Government for help in dealing with the accumulation of rubbish which had built up over the last eight weeks while the 350 dustcart drivers have been on unofficial strike over a pay claim. Agreement had been reached, earlier in the week, between the Glasgow Corporation and the shop stewards representing the strikers on terms for the immediate resumption of work, but these had to be ratified by a mass meeting of the men to be held the following day. There were grounds for hoping that a settlement would be achieved, but if one were not and the strike continued, the Secretary of State for Scotland was under a strong obligation to respond immediately to the Corporation's request for help. The only practical form this could take was to put in troops. It was important that, if this action had to be taken, the troops should arrive quickly, and that they should be withdrawn as soon as the strike was settled. If a backlog of rubbish still remained, it would be for the Glasgow Corporation to find ways of supplementing their own employees, possibly by using contract labour. On this basis, he recommended that, as a contingency measure, the Secretary of State for Scotland should be authorised to offer troops to clear the rubbish. He himself had held a meeting on the previous day with the Ministers immediately concerned, and detailed contingency planning could be undertaken by the Scottish Office in consultation with the Ministry of Defence.

In discussion the Cabinet were informed that there had been no prior consultation with the Glasgow Corporation about the way in which the troops might be used, nor had reconnaissance been carried out since this might become known and prejudice the chances of a return to work. If a decision to use troops were made in time on Friday 14 March 200 could be deployed by the following Monday and the balance of 400 by Thursday. Troops could not easily be spared from operational commitments, and it would be a serious step to use them for strike breaking; but the case for it would be apparent since the accumulation of rubbish presented a potentially serious hazard to health. It would be essential, however, to avoid any confrontation between troops and pickets.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet recognised that, if the strikers refused on the following day to return to work, the potential health hazard from the accumulated rubbish provided a strong argument for agreeing that the Government should help the Glasgow Corporation. In these circumstances they were prepared to authorise the use of troops for the duration of the strike only. The problem of clearing any remaining backlog remained for subsequent discussion.
The Cabinet -

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

2. Agreed that, if the Glasgow Corporation refuse workers voted to continue their strike, the Government should respond to the Corporation's request for help by offering the use of servicemen for the duration of the strike only.

3. Invited the Secretary of State for Scotland and the Secretary of State for Defence, in consultation as necessary with the Home Secretary, to arrange for the necessary contingency planning to be carried out for the deployment of troops early in the following week, should the need for this arise.

4. Authorised the Secretary of State for Scotland, in consultation with the Lord President of the Council, the Home Secretary and the Secretary of State for Defence, to arrange, if necessary, for an announcement in the House of Commons on the following day that the Government were prepared to help the Glasgow Corporation by the use of servicemen.

6. The Cabinet's discussion and the conclusions reached are recorded separately.

7. The Cabinet's discussion and the conclusions reached are recorded separately.

Cabinet Office

13 March 1975
The Cabinet considered memoranda by the Lord Privy Seal (C(75) 26), the Secretary of State for Social Services (C(75) 30) and the Secretary of State for Employment (C(75) 31) on the 1975 pay research results for the non-industrial Civil Service.

THE LORD PRIVY SEAL said that the system of pay research that had been in operation for the last 20 years was an extremely precise and refined procedure for implementing the principle of fair comparisons recommended by the Priestley Commission. The 1975 pay research gave a figure of 18 per cent for the increase in comparable outside rates; this figure was lower than had been expected. In a pay agreement signed in December 1974 the Government had approved two modifications of the system. The first was a correction for time lag, which added 9 per cent to the figure for 1975. The second was to move the operative date for pay adjustments from 1 January to 1 April; and the allowance for the 15-month period since the last increase added another 7 per cent, giving a total increase of 34 per cent since the last pay research. He recognised that this percentage increase would cause difficulties for the Government but it was no surprise; when the pay agreement was negotiated in December the figures had been expected to amount to 39 per cent to 44 per cent. The source of the difficulty was that the Trades Union Congress (TUC) guidelines for pay included no mention of comparability. On the other hand the Government had given numerous undertakings to preserve comparability for the Civil Service. The results of the pay research were known to the National Staff Side (NSS); and if they considered that the Government had broken faith with them there would not only be an immediate disruption of work but a danger of discrediting the whole system with longer-term consequences that would be very serious. There could be no question of arbitrarily reducing the figure. However, if Ministers were to tell the NSS that the economic circumstances of the country made it difficult for the Government to fulfil its undertakings, they might agree to forgo the change of
operative date and accept an increase backdated to 1 January. This would give a 27 per cent increase and save about £72 million for the Government. An approach of this kind seemed to offer the best chance of a compromise.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the paper enclosed with his memorandum had been considered by the Sub-Committee on Pay Negotiations of the Ministerial Committee on Economic Policy (EC(P)). It did not attempt to state the whole case, nor did it express the views of everybody in the Sub-Committee; but it was intended to be read together with the Lord Privy Seal's paper to show the grave problems to which his proposals would give rise. There was an acute problem of reconciling the proposals with the TUC guidelines and with the Government posture on public sector negotiations that had been agreed in the Ministerial Committee on Economic Strategy. Even if the proposals could be justified in detail it was the figure of 34 per cent that would appear in the headlines, and reliance on the principle of comparability would hinder the efforts of the TUC to restrain other trades unions from arguing their own cases on the basis of comparability with the miners. Government agreement to a settlement in breach of the guidelines would weaken the position of every negotiator, both in the trades unions and on the management side, who wished to observe the social contract. The repercussions were set out in detail in the annex to his paper. The most direct repercussions would be in the Post Office where there was a danger that the recent settlement would be reopened. There would also be repercussions on the forthcoming negotiations for electricity workers and railwaymen and on the dispute in the industrial Civil Service in which the principle of comparability was a major factor. There was no question of discriminating against the public sector, but now that economic conditions were beginning to deter expensive pay settlements in the private sector it was all the more necessary to keep the public sector settlements within the TUC guidelines. He suggested therefore that the Civil Service trades unions should be told of the Government's difficulties and asked for help in supporting the social contract. They might agree to reduce the annual rate of increase from 27 per cent to 22 per cent, which was still in excess of the rise in the cost of living. The Government might at the same time ask the TUC to bring their influence to bear on the trades unions concerned.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that because the miners had obtained a large pay increase through free collective bargaining and the electricity workers were likely to do the same it did not follow that there should be special restraints on pay for the Civil Service who were not free to engage in collective bargaining. The system of pay research and the Review Bodies were intended to provide a substitute for collective bargaining. The principle of fair
comparisons on which they were based was reaffirmed in the decisions that the Government had taken on the new Civil Service pay agreement, on the report of the Top Salaries Review Body (TSRB) and quite recently in the letter that had been sent on the Prime Minister's behalf to the Chairman of the Doctors' and Dentists' Review Body (DDRB). If the Government abandoned this principle for the Civil Service they must revoke their decisions on the TSRB and withdraw their assurance to the DDRB, who would probably then resign with disastrous consequences for the National Health Service. If they rejected this course the only fair alternative was to maintain the principle of comparability until the end of the present pay round in July, and then introduce new and tougher guidelines that would apply to everybody.

In discussion it was argued that the Government could not abandon the principle of fair comparisons which arose out of the Priestley report. This system had worked well, and the frequent Government undertakings to maintain it had placed their integrity at stake. If the Civil Service felt that the Government had broken its promise there would be industrial action which might be concentrated on computerised operations in the Inland Revenue, Customs and Excise and Department of Health and Social Security. The result might be to transform the Civil Service into an organisation dominated by militancy, a development which would in the long run be more damaging even than the miners' strike. If the Government chose to make an example of the Civil Service, they would not necessarily succeed in influencing other negotiations. The railwaymen, in particular, would be more influenced by the miners' settlement than by anything that happened in the Civil Service.

Against this it was argued that now that the rates of pay increases in the private sector were tending to decline it was all the more important to procure a comparable decrease in the public sector. The Government had had to concede a high settlement for the miners and might have to do the same for the power workers but they would be trying to persuade other public sector employers to reduce their rates of settlement. The aim must be to reduce the current rate by about 5 per cent and this could not wait until next July. Otherwise the Government could be faced with the stark choice between a sharp deflation and a statutory incomes policy. In present circumstances counter-inflationary policy must be given priority over everything else. Without abrogating the principle of fair comparisons, therefore, Ministers should try to persuade the Civil Service unions on grounds of national interest to accept less than they had been promised. Besides forgoing the change of operative date they might also be persuaded to accept a staging of the time-lag correction. If the unions rejected this approach and took their case to arbitration they would probably be awarded at least as much as the Lord Privy Seal
had proposed but the process of arbitration should at least delay the award until after the electricity workers' settlement.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Lord Privy Seal, together with the Chancellor of the Exchequer and the Secretary of State for Employment, should see the members of the NSS during the following week. They should explain the economic situation of the country, the importance of maintaining the TUC guidelines and the difficulty of reconciling the Civil Service settlement with them. They should ask the NSS to accept that their operative date should remain at 1 January in spite of the pay agreement and that the correction of the time lag should be implemented in two equal stages with an interval of a year. If it would help to win agreement the Government might have to consider whether the 4½ per cent that was to be withheld in 1975 should be paid back in the form of arrears of pay at the next pay settlement in 1976. If this approach were unsuccessful he would himself see the NSS, though probably not until after Easter. If they chose then to go to arbitration the results would not be known until after the Budget, by which time the situation might be different.

The Cabinet –

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

2. Invited the Lord Privy Seal, with the Chancellor of the Exchequer and the Secretary of State for Employment, to speak to the National Staff Side on the lines proposed.

Cabinet Office

14 March 1975
THE SECRETARY OF STATE FOR SOCIAL SERVICES said that she was ready to announce a programme of capital expenditure on new hospital building schemes for 1975-76. The programme was in accordance with the recent White Paper on Public Expenditure, and would cause widespread disappointment. She was about to write to the Chairmen of the Regional Health Authorities to tell them their allocations of capital for 1975-76 when she received a letter from the Chief Secretary, Treasury, asking all Ministers to make no fresh announcements of public expenditure that would carry substantial commitments beyond 1975-76 without prior reference to the Treasury. Since all commitments for new hospitals came into that category she had withdrawn her circular. There were now only three weeks to go before the financial year 1975-76 began. The withdrawal of the circular at that stage would disrupt planning and money might be wasted. Any further delay in announcing the programme would arouse speculation about the reasons for it. Her purpose in raising the matter was to ask about the status of the Chief Secretary's letter.

THE CHANCELLOR OF THE EXCHEQUER said that when the Cabinet had approved the White Paper on Public Expenditure he had said that it might be necessary to adjust the expenditure for later years in the light of the economic situation. In particular it might be necessary to lower the base for the rolling over of Departmental expenditure programmes. It might now be necessary as a part of his Budget to make cuts in the projected rate of public expenditure in 1976-77. It was for that reason that the Chief Secretary had asked Ministers to incur no new commitments for that year without prior reference to the Treasury. Until the decisions were taken it would be only prudent to avoid announcing any further specific projects.
THE PRIME MINISTER, summing up a brief discussion, said that the Chancellor of the Exchequer hoped to decide in the course of the next week whether it would be necessary for his Budget package to include cuts in public expenditure for 1976-77. He would then discuss the matter with his colleagues. Meanwhile the Secretary of State for Social Services should continue to withhold her circular.

The Cabinet -

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

Cabinet Office

14 March 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
MONDAY 17 MARCH 1975
at 10.30 am

PRESENT
The Rt Hon Harold Wilson MP
Prime Minister

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1. The Cabinet had before them a memorandum by the Foreign and Commonwealth Secretary (C(75) 33) on the results of the renegotiation of the terms of British accession to the European Economic Community (EEC).

THE PRIME MINISTER said that this meeting of the Cabinet was designed to elucidate the terms which had been renegotiated by the Government, considering them under the objectives for renegotiation set out in the Labour Party’s Manifesto for the General Election in February 1974. Later in the day he would discuss the renegotiated terms with members of the Government not in the Cabinet and with the Parliamentary Labour Party. The Cabinet would resume its discussion on the following day when it should try to decide whether or not to recommend continuing membership. They would then have to form a judgment, not only on the revised terms that had been negotiated, but also on the present character of the Community. There was an important distinction between its practical working, which was now more political in approach, and its theoretical and legal basis. If any Minister could not support the Government recommendation, he would be free to say so; and in this context guidelines for the “agreement to differ” would be circulated which would have regard to the need to preserve a united Cabinet on all other issues. In particular personal attacks on or replies to colleagues must be avoided, although the media might try to promote their appearance.

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that renegotiation could not get seriously under way until the Government had been returned with a majority in October 1974, by which time there were new Heads of Government in West Germany and in France. In view of the referendum commitment the Government had nevertheless decided that it should plan to conclude renegotiation by the early spring of 1975. This had limited the period of effective renegotiation to about four months; and it had clearly not been possible to achieve all the Government’s objectives within that period. Some would have to be pursued in continuing EEC business. He would however like to make some general observations as a result of twelve months’ experience of the EEC. First, it was changing fast, under the pressure of world events as well as of British influence. The world food situation was radically different from that envisaged when we were considering applying for membership. In particular the balance between primary producers and industrialised countries had moved more in favour of the former, a development which a Labour Government could not oppose; and this would have to be taken into account in determining British food and agricultural policy whether we were members of the EEC or not. The previous plans for progress towards economic and monetary union had been set aside, as had federalist concepts. The
EEC was now showing a much more open attitude to the rest of the world. Secondly, there were limits to the Commission's power: the real power resided in the Council of Ministers. Regular meetings of the Council, especially the newly introduced system of regular meetings of Community Heads of Government, were giving co-ordinated political leadership to the Community. The Commission remained the guardian of the treaties, and as such tended to be supported by the smaller members of the Community to protect themselves against undue dominance by West Germany, France and the United Kingdom. Thirdly, the Community was much more sensitive to, and readier to meet, national interests of member states than might have appeared.

In a short general discussion it was emphasised that any criticism of the renegotiated terms was not intended as a reflection on the skill and vigour of the Foreign and Commonwealth Secretary or of other Ministers involved in renegotiation, who had promoted British interests with ability. The Cabinet then considered the various topics covered in the Foreign and Commonwealth Secretary's memorandum.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the February Manifesto had called for "major changes in the Common Agricultural Policy (CAP), so that it ceases to be a threat to world trade in food products, and so that low-cost producers outside Europe can continue to have access to the British food market". We had not challenged the basic principles of the policy - the objectives of which were similar to those of the British agricultural policy, from the Agriculture Act 1947 onwards - but we had sought to change it from within. Moreover, in view of the changed world situation, an assured supply at relatively stable prices (which were falling in real terms), as provided by the CAP, would be in our national interest. The arrangements made for the import of sugar were advantageous; and the principles adopted for continuing import of New Zealand dairy products were also helpful. The Commission's review on which the stocktaking of the CAP would be conducted was on balance favourable to our policy approach. In view of the changes which had already occurred, and those which would be made - if we were in a position to keep up pressure for reform from within - he considered the position reached on the CAP to be acceptable.

In discussion it was argued that there had been no change in the fundamental structure of the CAP - Community preference, variable levies on imports, and support buying. The stocktaking would take place outside the renegotiation timetable; and, since the Commission and several of the other member states would defend the present arrangements strongly, we could not say how much success would be
achieved. Even if we could not alter the principles of the CAP for the whole Community, we should have obtained a derogation from them for the United Kingdom; and this had not been achieved. The arrangement whereby we could operate deficiency payments for beef had been agreed for one year only and Mr Lardinois, the Commissioner concerned, had made plain his dislike of national aids. Improved access for third country foodstuffs, apart from sugar and New Zealand dairy products, had been left until the multilateral trade negotiations, which would take place outside the renegotiation period, where too it was uncertain what would be achieved. It was doubtful whether there had been a fundamental change in world food factors; events of the last two years might constitute only a temporary change. North America had ample resources for increased food production. Already grain prices had fallen sufficiently far for the EEC to reintroduce levies on imports. The EEC butter price was very high compared with the world price, and there was still a general ban on imports of beef. It could thus be argued that the CAP remained a threat to world food trade and constituted a system of taxes on food.

On the other hand, it was pointed out that CAP prices were now being determined in accordance with criteria which economically were more soundly based. As a result they were being brought down in real terms from their previous excessive levels, while world prices had risen. Membership of the EEC no longer caused the heavy increase in food prices that had been expected before our entry. On balance the extra costs were approximately balanced by the benefits of the CAP, leaving our total food bill at about the same level as it would have been if we were outside the Community. Although levies were now payable on cereal imports, they were more than offset by the EEC systems of compensatory amounts, and we were therefore still obtaining cereals more cheaply than if we were outside the EEC; and world cereal prices were now rising again. Dairy products remained the area where EEC prices were relatively high; but the only other major supplier was New Zealand, which had not been able to supply the quantities provided for over the past two years and could not give an assurance that she would do so in the coming years. In any case the New Zealand Government, who had welcomed the agreement reached in the EEC Heads of Government meeting in Dublin on 10/11 March on the principles to govern continued access for New Zealand dairy products, had made it plain that they would seek appreciably higher prices for their exports. Although future world food supplies and prices could not be forecast, we could not base our policy on the expectation of a return to cheap food. Specific approaches on this had been made during renegotiation to our traditional Commonwealth suppliers, who had made it plain that they did not wish to return to that system. If there were a return to heavy surpluses, we would in any case
wish to take action, for broad political reasons, to safeguard the interests of primary producers. It was more probable, however, that demand for food from developing countries would keep world supplies tight. We were likely to wish to expand our own agriculture for import-saving reasons, and the CAP could assist that. The stocktaking of the CAP would be an important forum in which to pursue our objectives; and it was unrealistic to expect us to have obtained a permanent change in the beef regime in advance of this. We should also pursue further improvements in access for third country foodstuffs of concern to us, such as hard wheat; but we had had success in reducing tariffs on a wide range of foodstuffs in a number of trade negotiations, and the overall impact of tariffs on foodstuffs was now small.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the February Manifesto had called for "new and fairer methods of financing the Community budget." Neither the taxes that formed the so-called 'own resources' system of the Communities, nor the purposes, mainly agricultural support, on which the funds are mainly to be spent, are acceptable to us. We would be ready to contribute to Community finances only such sums as were fair in relation to what is paid and what is received by other countries". The Government had decided not to seek to overturn the 'own resources' system as such, but to correct its unfair impact. Against strong opposition we had achieved considerable success. We had obtained a correcting mechanism which would bring our gross contribution more closely into line with our share of the Community's gross national product (GNP). This mechanism was subject to a number of qualifying conditions, only one of which was likely to bite; and there would be a ceiling on the potential refund available. But the end result would be a worthwhile reduction in our contribution to the Community budget. We must expect to continue to be net contributors since, among other reasons, some of the items of Community expenditure - eg aid for developing countries - were those we wished to see extended. The aim in the form set out in the Manifesto had not been met, but renegotiation had resulted in a new Community arrangement which would bring a considerable financial improvement to us; and he recommended the Cabinet to accept it.

In discussion the following points were made -

i. The fact that in renegotiation we had not directly attacked the 'own resources' system did not mean that we accepted it. In this context it was relevant that since two of the three elements in 'own resources' were agricultural levies and import duties, the United Kingdom, as the major world trader in the Community, could not avoid being a heavy
contributor; and, since a high proportion of expenditure went on agricultural support, inevitably our receipts were relatively low.

ii. The limitations in the correcting mechanism meant that, in net terms, only about one-third of the gap between our contributory share of the budget and of the Community's GNP would be covered. We should seek to improve our position by, in accordance with general Government policy, pursuing policies designed to increase our GNP, and also by aiming to increase our receipts from the Community budget.

iii. Forecasts of net contributions in the future were very uncertain, as the considerable differences between forecasts and much lower out-turn for the past two years demonstrated.

iv. If we benefitted from the correcting mechanism for three years in succession the Community would review the position with us in order to consider what further action was required. If we were lagging behind the converging economies of the other members, this further action could be beneficial. The Community might say that our poor economic performance in these circumstances was due to our following the wrong policies, just as other international organisations in this field could and did; but conditions could not be imposed upon us which would affect our benefits from the correcting mechanism if we continued to qualify for a refund.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Manifesto commitment read: "We would reject any kind of international agreement which compelled us to accepted increased unemployment for the sake of maintaining a fixed parity .... We believe that the monetary problems of the European countries can be resolved only within a world-wide framework". There had however been a major change in the attitude of other Member Governments to the practicability of achieving economic and monetary union (EMU) by 1980. The programme for advancing to EMU by stages had been tacitly abandoned. EMU remained a long-term Community goal, but we should be able to ensure that our interests were fully protected by the veto if and when any proposals were made in that direction. There was no prospect of our coming under pressure to agree to an arrangement which would threaten the level of unemployment in this country. The "world-wide framework" referred to in the Manifesto had been used by the Community in recent months, at the instigation of the Chancellor of the Exchequer, to consider monetary problems.
In discussion it was argued that the communique of the Paris Summit in December 1974 had affirmed that the Community's will to make progress towards EMU had not weakened and that this communique could be used in the future to push us in an unacceptable direction. On the other hand it was pointed out that EMU was a long-term goal of the same character as general and complete disarmament; desirable in principle but unattainable in practice. The reality was different from the visionary concept of communes. There was increasing emphasis on co-operation between Member Governments of a kind which would make it less important to achieve the linked exchange rates which had been prominent in previous thinking. Progress along these lines was in our interests. The Government's White Paper on the outcome of renegotiation might make clear that the stages, adopted in 1971 and 1972 for progress towards EMU, were tacitly discarded in the Paris Communique of December 1974.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Manifesto objective was "the retention by Parliament of those powers over the British economy needed to pursue effective regional, industrial and fiscal policies". The regional aspect had been considered by the Cabinet on 27 February, when a majority concluded that, subject to the overall judgment on the outcome of renegotiation, the Communication from the Commission met our requirements. That Communication established a hierarchy of assisted areas which conformed with our own. No forms of national aids were ruled out in principle, and there was no interference with our existing regional aids. The Commission had acknowledged that national Governments were the best judges of what was required in their own country and that urgent action by Governments should not be held up by Treaty procedures. A derogation was being obtained for the assistance given by the Highlands and Islands Development Board. Parliament retained the power to vote money for regional assistance and to allocate this money in a way which was required to promote effective regional policies. The Commission's powers were derived from the EEC Treaty, which laid emphasis on the need to avoid assistance which gave unfair advantage to one Member State over another and he would circulate some reassuring supplementary correspondence with the Commission on the matter.

In discussion it was argued that the Manifesto commitment had not been met since the legal power to grant regional assistance in this country remained fettered by the Treaty and the powers of the Commission. The Commission's Communication laid down principles which were valid for only three years and provided no safeguards for future changes in our aids. It was argued, on the other hand, that the Communication, and our experience of the operation of the Treaty's provisions, demonstrated that we should
encounter difficulty in the Community only if we used a regional aid to give an unfair competitive advantage to our industry over that of another member state, or to outbid another member state by making special regional grants to secure an investment project which would have otherwise gone elsewhere in the Community. The assisted areas in the United Kingdom could be assured that their position had been completely safeguarded. If we withdrew from the Community, any free trade arrangement we were able to negotiate would be bound to include competition provisions similar to the rules in the EEC Treaty. We should also still be bound by other international agreements of this kind.

THE FOREIGN AND COMMONWEALTH SECRETARY said that we had not met with any serious difficulties from the EEC in the conduct of industrial policy during the past year, and it was incorrect to suggest that the Treaties and the Commission stood in the way of the policies to which the Government were committed. If we withdrew from the Community, the competition rules attached to any free trade agreement would extend to industrial arrangements, as well as to regional assistance. The proposals in the Industry Bill for the National Enterprise Board and for planning agreements were in no way incompatible with the EEC Treaty, provided that powers were not exercised in a way which damaged the interests of other member states. The EEC Treaty specifically permitted nationalisation. The provision in the Industry Bill for stopping foreign takeovers would of course have to be exercised in a way which did not discriminate against EEC firms; but that limitation would have to be weighed in the overall assessment of the outcome of renegotiation.

In discussion it was argued that the experience of the past year was, in the special circumstances, an inadequate safeguard for the future, since power still resided with the Community institutions, rather than with Parliament. The Manifesto commitment had not therefore been met. On the other hand, our own system of planning agreements was partly based on the practice in France and other EEC countries where it had not run into difficulties with the Treaty or the Commission. This illustrated how the Cabinet's overall judgment would need to be based on how far the EEC, now and in the future, would operate in the pragmatic way which our experience had shown was to be expected, instead of juridically and with an over-strict regard for the letter of the Treaties.

THE PRIME MINISTER said that he had himself raised the question of steel with the other Heads of Community Governments at their recent meeting in Dublin. He had reminded them that neither the Treaty establishing the European Coal and Steel Community, nor any rules and practices developed under the Treaty, derogated in any
way from the right of Britain or of any other member country to extend the boundaries of public ownership or to take the whole steel industry into public ownership. When Britain joined the EEC the Conservative Government had repealed the statutory powers which gave the Government certain controls over private investment. This had meant that the Government could not deal adequately with the problem of the mini-mills. This position had to be put right, if necessary by amendment to the Treaty. He had however told the other Heads of Government that he would be glad to learn from their experience in solving similar problems, to see whether ours could be resolved in a way compatible with the Treaty. He had assured them that we should much prefer to avoid a Treaty amendment, but that it was of vital importance to us that the problem should be solved. It was not practicable to make progress on it before the end of renegotiation and it would fall to be dealt with in the future work of the Community if we remained members after the referendum.

In discussion it was pointed out that difficulties had also arisen in relation to the acquisition of a private steel firm. There were grounds for supposing, however, that the Commission's reaction to the original proposal may have been due to a failure to understand clearly what the Government's intentions were.

**Fiscal Policies**

**Value-Added Tax**

THE FOREIGN AND COMMONWEALTH SECRETARY said that no problems had arisen in relation to fiscal policies. Certain measures had been proposed to harmonise the structure of some indirect taxes. We should be able to block any proposals which we considered unacceptable.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Manifesto commitment was to prevent "harmonisation of value-added tax (VAT) which would require us to tax necessities". The proposals now being discussed in the Community were concerned with agreeing a uniform assessment base for VAT. They provided for our system of zero rating. We should be ready to resist any proposals in this field which were unacceptable to us.

In discussion it was pointed out that the need for a uniform assessment base for VAT arose because the budgetary resources of the Community under the 'own resources' system would include sums corresponding to the yield of VAT charged at a rate of up to 1 per cent on a uniform base. Our system of zero rating was provided for in the uniform base which had been proposed. All member states would find it difficult to agree on harmonisation of the actual rates of VAT.
THE FOREIGN AND COMMONWEALTH SECRETARY said that the February Manifesto read: "We need an agreement on capital movements which protects our balance of payments and full employment policies". Last year the Government had been able, by using provisions in the EEC Treaty about member states in balance of payments difficulties, to revert to what was broadly the same exchange control regime as applied before accession. Action could continue to be taken under these provisions to protect our balance of payments.

In discussion it was suggested that the Cabinet should have further information about the terms of the derogations we had been granted in respect of capital movements; these would be provided by the Chancellor of the Exchequer. The Treaty provisions under which we had acted provided for an investigation by the Commission of the position of the member state which invoked them, but the Commission's consequential recommendations would need to go before the Council of Ministers, where we should not agree to measures which were unacceptable to us. The International Monetary Fund regulations contained similar provision for an investigation in appropriate circumstances.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the February Manifesto read: "The economic interests of the Commonwealth and the developing countries must be safeguarded. This involves securing continued access to the British market and, more generally, the adoption by an enlarged Community of trade and aid policies designed to benefit not just 'associated overseas territories' in Africa but developing countries throughout the world". Our membership of the EEC had brought considerable benefits to the Commonwealth both in opening up the Community market to them and in aid. He had had conversations in the past few months with representatives of many developed and developing members of the Commonwealth. In all cases they had thought that their interests were better safeguarded by our being inside the EEC rather than out. In addition to what had been achieved in respect of sugar and New Zealand dairy products, there had been the important achievement of the Lome Convention between the EEC and 46 developing countries, 22 of them in the Commonwealth, from Africa, the Caribbean and the Pacific. This convention had been hailed internationally as a major new development, and as establishing a satisfactory basis for relations between the developed and the developing world. The scheme for the stabilisation of export earnings from commodities was a new step of especial value. The Community's Generalised Scheme of Preferences had been greatly improved and extended to beyond 1980. Aid to developing countries outside the Lome Convention had been agreed in principle, but no money had yet been forthcoming. This was an issue which
the Germans looked upon as affecting their national financial interest, and they were proving difficult about it. On trade, a wide range of improvements had been made in a number of trade negotiations which would be of assistance to Commonwealth and developing countries. In his view therefore the Manifesto objective had been met.

In discussion it was argued that the situation on aid to Southern Asia required further consideration, and that the Minister of Overseas Development had expressed her dissatisfaction on this point. Although the countries concerned would benefit under the Generalised Scheme of Preferences and from bilateral aid, we should keep up our pressure on the Community to implement the principles for world-wide aid which it had accepted. It should be recognised that our withdrawal from the Community would reduce rather than increase the pressure for better treatment for Southern Asia; and the countries concerned understood this.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet would resume their discussion the following day, starting with the general issue of Parliamentary sovereignty and moving on to an assessment of the overall package.

The Cabinet -

Agreed to resume on the following day their consideration of the outcome of renegotiation.
2. THE PRIME MINISTER informed the Cabinet that the Secretary of State for Industry would be announcing later in the day the terms of compensation for nationalising the aircraft and shipbuilding industries. In accordance with precedent these had been considered by a very small group of Ministers under his own chairmanship; and it remained of the utmost importance to avoid any leakage of information in advance of the Secretary of State's statement. Nevertheless he thought members of the Cabinet should see the statement in advance of it being made, and copies were being made available to them accordingly. The essence of the Government's proposals was that the precedent of the Iron and Steel Act 1967 should be followed and that the Government should buy shares rather than assets, mainly because assets are variously valued in company books, often at prices inflated well beyond their earning capacity. Some shareholders would no doubt consider it harsh to base compensation on shares despite the recent recovery on the Stock Exchange, but such criticism had been anticipated by choosing a comparatively generous reference period, namely the six months prior to the Election in February 1974, when the general level of share prices was significantly higher than it was now. No deduction would be made from compensation in respect of past aid given on settled terms, since it would be against all precedent to alter such terms retrospectively; but, equally, no credit would be allowed for expectations of future aid. Provision would be made as usual for prices to be decided by arbitration if the Secretary of State for Industry could not agree them with the stockholders' representative.

The Cabinet -

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

Cabinet Office

17 March 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 18 MARCH 1975
at 9.30 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 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 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
The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury (Items 1 and 2)

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

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 1-3)
Mr B C Cubbon (Items 1-3)
Mr E J G Smith (Item 2)
Mr J S Scott-Whyte (Item 1)

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Guidance on Procedure between Announcement of Government Recommendation and Referendum
The Cabinet had before them a memorandum by the Lord President of the Council (C(75) 32) reporting on the consideration given by the Legislation Committee to the role of Parliament in the context of the renegotiation objectives.

THE LORD PRESIDENT OF THE COUNCIL said that the Legislation Committee had thoroughly considered this matter at a series of meetings over the past 12 months. The essential question was the extent to which membership of the Community entailed limitations on the sovereignty of Parliament and how far any such limitations could be removed or lessened consistently with continued membership. This issue arose from the unique character of the Treaties of Rome and Paris, which involved the acceptance of certain types of Community instrument as directly applicable law in the member states. Parliament could undoubtedly exercise its ultimate sovereignty by repealing the European Communities Act 1972, thereby taking us out of the Community. Indeed the commitment to the referendum demonstrated this. The continuance of the direct applicability of Community law in the United Kingdom depended ultimately, therefore, on the continuing assent of Parliament to our membership of the Community. The Luxembourg Communiqué, on unanimity within the Council of Ministers in matters of vital national interest, provided a safeguard for the United Kingdom; and it was for the Government to decide how far to allow its exercise of the veto to be subject to Parliament’s instructions. The Legislation Committee were agreed that it was essential not to obscure the fact that Parliament’s control of day-to-day legislation in some areas had been diminished by accession to the Community. This situation could be dealt with in one of two main ways. The first was to eliminate directly applicable Community legislation for the future by amendment of or derogation from the relevant Treaty provisions or by agreement within the Community that the use of these provisions should be renounced. A minority in the Committee had felt that this objective should be pursued as a condition of continued membership. The majority did not favour this course since it would represent a major departure for the Community from its established methods of working; and it would hinder the rapid and effective implementation of agreements arrived at in the Council, jeopardising in certain cases the continuance of common policies. Moreover, to embark on this course at this stage would amount to a new renegotiation demand which was likely to be considered by other member states as inconsistent with membership. The fact of directly applicable law as an essential part of the Community’s operation should be made clear to the electorate before the referendum, thus in effect enabling a decision on this issue to be taken through the medium of the referendum. The Committee were agreed that, whatever the outcome on the main issue, the Government should strengthen the arrangements for Parliamentary scrutiny and debate of legislative proposals before their adoption by the Council.
The Legislation Committee were divided on the desirability of enacting a statutory declaration of the ultimate sovereignty of Parliament. The majority considered that such a declaration would be a misleading nullity which would be contrary to normal constitutional practice and would give rise to suspicion in the Community and to misconception at home. Another supplementary option was to tighten the conditions in Schedule 2 to the European Communities Act for the use of subordinate legislation to implement non-directly applicable obligations, though Parliamentary time would then have to be found for additional primary legislation. A limited amendment of this kind would be peripheral to the main debate on sovereignty and would not provide an amending Bill of any substance. Finally, there was the suggestion that the scrutiny procedures should be put into a statutory form. In his view it would be unsound to attempt to frame Parliamentary procedures in a statutory form.

In the circumstances he had come to the view that the right course was to concentrate on improving the arrangements for Parliamentary scrutiny of Community proposals and the arrangements for debates in Parliament before the Government entered into decisions or commitments in the Council of Ministers. Work could be urgently pursued to this end, though it would be necessary to have regard to the recommendations of the Select Committee on Procedure.

In discussion it was argued that consideration of the issue of Parliamentary sovereignty should not have been separated from the handling of other renegotiation issues; the Cabinet was only now considering fundamental questions which might otherwise have been raised with the Community at an early stage in the process. The right of the Community to impose directly applicable legislation and to impose taxes under the "own resources" formula were the most serious of all the changes involved for the United Kingdom in Community membership. Directly applicable regulations were an obsolete feature of the Community related to a period when it was regarded as potentially a supranational organisation; the directive, which allowed more scope for Parliamentary initiative, was the form of legislation more suited to the Community's modified aspirations. The system of directly applicable law, made by the Community, was a gross infringement of sovereignty in the sense that political sovereignty rested in the power of a nation to make its own laws. The application of the veto was not relevant to the role of the Commission; and we had had to accept the existing laws of the Community on entering into membership. The transfer of Parliament's legislative powers to the Council of Ministers, and even more so to the Commission which was not elected and not accountable to the people of the United Kingdom, represented the most serious attack on Parliamentary democracy with which this country was faced. The relationship between Parliament and the Government in relation to
European Community business would result in a dismemberment of the authority of the House of Commons. Moreover the threat to Parliament from Community membership was compounded by the prospect of a directly elected European Assembly; and it would be aggravated by the establishment of directly elected Assemblies in Scotland and Wales.

On the other hand, it was pointed out that the issue of sovereignty had been considered by the Labour Cabinet in 1967 and that the implications of Community membership had been spelt out in detail in the White Paper "Legal and Constitutional Implications of United Kingdom Membership of the European Communities" (Cmnd 3301). The renegotiation process had been conducted in full knowledge of these implications. It had been essentially concerned with the revision of the terms on which we should be able to display our national sovereignty within the Community in dealing with the policy issues which concerned us. Many of the changes secured were directly related to the protection of United Kingdom sovereignty in regional and industrial matters. The Commission had no power to impose direct taxes outside the limits already laid down in the "own resources" system. Despite the Treaties of Rome and Paris our power to make our own laws remained; Parliament could, if at any time it so wished, repudiate all our obligations under the Treaties and recall the powers which it had delegated to the Community institutions. The exercise of sovereignty was a political rather than a juridical issue; and, if Parliament was dissatisfied with the performance of the Government within the Community framework, it could exercise its powers to criticise Ministers or even to enforce a change of Government. It was desirable to allow the Parliamentary procedures for Community business to continue to be developed with a view to achieving a balance between the power of Ministers to act and the power of Parliament to hold them to account. This meant developing arrangements which would enable Parliament to express its view on the right issues, in the right form at the right time. For this reason, and on wider grounds, it might be desirable to initiate a major review of the conduct of Parliamentary business in the early future.

In further discussion there was criticism of the way in which the Commission had promoted unnecessary harmonisation in comparatively minor matters (though the Commission had recently behaved more sensibly in this respect). These were not matters suitable for the exercise of veto powers. If we remained members of the Community, it was desirable to direct Community energies away from these channels. We could also seek a number of other changes in the role and structure of the Commission, including a reduction in the number of Commissioners (and consequently in the activities of Commission staff) and in the scale of Commission expenditure. Certain other member states had similar ideas.
THE LORD PRESIDENT OF THE COUNCIL, invited to reply to the
discussion, said it was clear that Parliament could not divest itself
ultimately of its sovereignty and was in a position to bring the United
Kingdom out of the Community at any time by repealing the European
Communities Act 1972. His own view remained that, while we
remained members, any proposal we might contemplate making in
order to change the concept of directly applicable Community law
could not be expected to succeed since it would alter the essential
character of the Community. None of the other possible amendments
of the European Communities Act would be satisfactory. A statutory
declaration of the sovereignty of Parliament would be seen to be purely
cosmetic. To restrict the power to implement Community directives
by subordinate legislation would not meet the real concern which had
been expressed and would unnecessarily involve the Government in
finding time for additional primary legislation. To embody the
scrutiny procedures in statute would import an unsound and
unnecessary rigidity into Parliamentary arrangements. If the
referendum decision were to remain in the Community the Government
should however continue to strengthen the scrutiny procedures, and it
might shortly be desirable to give a reconstituted Procedure
Committee of the House of Commons a wide-ranging remit which
would cover the European Community field in the context of examining
the whole of the arrangements for conducting Parliamentary business.

The Cabinet -

Took note, and agreed to take this discussion into
account in their consideration of the outcome of
renegotiation as a whole.
2. **THE PRIME MINISTER** said that the Cabinet must now reach a decision on the outcome of renegotiation. His own recommendation, in which he was joined by the Foreign and Commonwealth Secretary, was that the United Kingdom should remain a member of the European Economic Community (EEC). In their view the objectives for renegotiation of the terms of British accession to the EEC as set out in the Labour Party's Manifesto for the General Election of February 1974 had substantially been met. The decision whether or not to remain members of the EEC should however take into account not only the renegotiated terms, but changes which had occurred - and for which we could claim some of the credit - in the working practice of the Community. It was now operating much more under the political direction of the Governments of member states. It was also very relevant that the Commonwealth countries, some of whom were diversifying their trading pattern in the light both of British entry to the EEC and of other political factors, almost unanimously believed that their interests were best served by the United Kingdom remaining a member of the EEC. If we were to leave the Community we would obviously seek to negotiate a free trade arrangement with it but the experience of Sweden showed that onerous conditions would be attached to it. In our case, given the nature of our trade, the conditions might be more onerous and we should of course be in no position to influence them from within. We had great power to continue to change the Community, and in all the circumstances he had come to the decision that it would be best for Britain, for Europe, for the third world and indeed for the whole world for the United Kingdom to remain a member of the EEC.

In discussion it became evident that a large majority of the Cabinet agreed that they should recommend that the United Kingdom should remain a member of the EEC. They agreed that the Ministers concerned had succeeded in securing marked improvements in the terms of our membership of the EEC. While it was not claimed that the objectives set out in the Manifesto of February 1974 had been fully met, there had been considerable and unexpected success in many fields and further improvements could be pursued in the course of continuing EEC business. The improvements were in marked contrast to the terms obtained by the previous Administration. The fundamental principles of the Common Agricultural Policy (CAP) had not been changed, but many improvements had been made in the way it operated and the new arrangements for beef, though instituted only for the current year in accordance with Community practice, represented a considerable breakthrough. The Government's objectives on the import of sugar from the developing Commonwealth had been met in full, and the improvement in the EEC's attitude to the Commonwealth and the developing world had been one of the principal successes of renegotiation. Similarly the position was now much improved in relation to the Community budget, capital movements,
and Value Added Tax. The Government's regional, industrial and fiscal policies were in general well safeguarded, but the marker we had put down on the control of private steel investment would need to be followed up.

The following reasons were also advanced in support of this view:—

a. Although we wanted to strengthen the "one world" framework, we had to recognise that regional groupings existed. We should use our membership of the EEC, and our influence on its policies, to move away from the sterile confrontation which had been taking place in United Nations bodies between the blocs of the developing and the developed world. Under our influence the EEC had already become more outward looking, particularly towards North America and the developing world.

b. The cohesion of Western Europe might well be disrupted if we were to leave the EEC; and the British people might be misled into taking the view - which had bedevilled British policies for decades after the Second World War - that we remained a major world power in our own right. The Union of Soviet Socialist Republics, though it would not say so publicly, did not consider our membership of the EEC a hindrance to detente and probably judged that it would help to restrain any aggressive tendencies in West Germany.

c. The Community was not now developing in a federalist direction; as long as we remained members we could prevent it developing in that way. The written texts of the Community had not kept pace with developments in practice. Although the texts might indicate that the Community was based on free market concepts, this did not reflect reality. A number of the member states had mixed economies and progressive social policies which were at least as advanced as the United Kingdom's. We were only now at the beginning of our own relationship with the Community and we could bring important influence to bear in its development.

d. A decision to withdraw from the EEC would be very different from a decision not to join in the first place. While membership of the Community could not be expected to solve our economic problems and it would not necessarily be disastrous if we were to leave, this would be a risky economic course. Indeed it was argued that we might only survive in such a situation by adopting policies for a siege economy. There was no alternative economic grouping available: previous suggestions that a Commonwealth economic bloc or
a North Atlantic free trade area could be formed would not now be practicable. Great uncertainty would be caused during the protracted negotiations for withdrawal from, and determination of a new relationship with, the Community; this would have particularly serious implications for investment.

e. The concept of directly applicable Community law, which was novel to the British constitution, had to be accepted as essential for the operation of the Common Market. It would have been easier to have ensured that its structure and political philosophy were more consistent with the British political character and constitutional practice if we had been involved in the Community from the beginning. But the powers of national Governments to restrain the Commission, and of national Parliaments to influence the Community, should not be underestimated. For example, British and German objections to unwise proposals by the Commission on the harmonisation of standards had prevented those proposals from making progress and the Commission had had to adopt a different and more acceptable approach.

Parliament retained considerable powers in these fields by its general political control of Ministers. Nevertheless improvements in procedures, as had been proposed, to enable Parliament to exert more influence on Community legislation should be pursued urgently. It would also be necessary to consider, if we remained members, how best to curtail the unnecessary powers and enthusiasm of the Commission.

A number of Ministers said that they would wish to dissent from a Cabinet decision to recommend that the United Kingdom remain a member of the EEC.

THE SECRETARY OF STATE FOR INDUSTRY said that he would not repeat all the arguments which had been put forward in the discussion of individual items in the package. The Cabinet could however be on the verge of a tragic decision. The objectives set out in the February 1974 Manifesto had not been achieved; all the difficult points had been deferred until after renegotiation. It was wrong to think that Britain's economic problems could be solved within the EEC; too pessimistic a view had been taken of Britain's prospects, and we would be better placed to solve our problems outside the Community. The EEC would inevitably develop in a federalist direction (though this was for the present being disguised) and the power of the British Parliament and electorate had already been reduced. He feared that continued membership of the EEC would lead to the break-up of the United Kingdom. Moreover the Labour Party would be placed under considerable strain if the Cabinet were to go against the view of most of the rest of the Labour and trade union movements.
THE SECRETARY OF STATE FOR EMPLOYMENT said that he
too did not consider that the Manifesto objectives had been achieved in
several important respects. The consequences of withdrawal from the
EEC had been exaggerated; he did not accept that Britain's problems
could be solved only by our accepting an alien system, whose
legislative basis - the European Communities Act 1972 - it was not
proposed to change. Policies which had stood Britain in good stead,
for example on agriculture and the Commonwealth, had already been
destroyed by attempts over the last decade to join the EEC.
Continued membership would lead to the dismembering of the United
Kingdom, and of the authority of Parliament which had already lost
much of its power in EEC affairs. If we remained in the Community
the seat of power would lie in future in a permanent coalition in
Brussels.

THE SECRETARY OF STATE FOR ENERGY said that he was not
inflexibly opposed to Britain's membership of the EEC; he
acknowledged the improvement in our terms of membership, in
particular as regards the Commonwealth. Nevertheless too much
had to be taken on trust, since the fundamental changes in the
Community which we required had not been achieved in renegotiation.
He was particularly concerned about the situation on energy. North
Sea oil would be an asset of great value to us and would be a
considerable help to our survival outside the Community; but there
were already moves to apply the EEC Treaty to the Continental Shelf.
If we remained a member, we should be exposed to pressure for
Community policies, for example on depletion. While he would vote
in the referendum against continued membership, and believed that
Britain could survive outside the Community, he would work for the
success of Community membership if that proved to be the
referendum result.

THE SECRETARY OF STATE FOR TRADE said that he was opposed
to continued membership of the EEC because it was disadvantageous
to us materially, to the powers of Parliament and the unity of the
United Kingdom, and in relation to the kind of world we wished to see.
The EEC was not an effective regional grouping, as their failure in the
energy crisis and the current French attitude towards the
International Energy Agency had shown. The British people did not
have the community of feeling with Continental Europe which would be
required to make a genuine Community, and our membership of it did
not assist the "one world" concept. If we withdrew, there would be
problems though they should not be exaggerated; we could still
prosper and make a better contribution to the world as a whole from
outside the Community.
THE MINISTER FOR PLANNING AND LOCAL GOVERNMENT said that the present occasion was the country's final opportunity for settling the issue of membership, and he would accept the outcome of the referendum. But the logic of the EEC pointed it towards the destination of a federal structure for a United Europe. The February Manifesto set out only the minimum objectives in the renegotiation; a significant element in them had not been met and had been left over for the continuing business of the Community if we remained members. He felt therefore that the country should decide to withdraw.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Labour movement did not believe in the basic principles of the EEC. These could not be dismissed as mere theology. We had accepted that we could not challenge these principles, for instance in relation to the CAP, and the Commissioner responsible had made it clear at a recent meeting of the Council of Ministers that national agricultural regimes were outside the Treaty and could not be allowed. The veto was not something which could be exercised simply on the basis of the Government's dislike of a particular proposal. Experience had shown that our whole bargaining position on current Council issues had to be taken into account. The Council of Ministers was in effect an institutionalised system of coalition government, and the Labour Party had always been united in its opposition to the notion of coalition government. Our virility as a nation would be weakened if we remained a member of the Community.

THE SECRETARY OF STATE FOR SCOTLAND said that although certain changes, some of which were temporary, had been agreed in the operation of the CAP, it was clear that the basic principles of the CAP had not been changed; and the common fisheries policy would mean that other EEC countries could eventually fish in our waters, notwithstanding the extension of fishing limits which it was expected would shortly be agreed internationally. The renegotiation of our budgetary contributions had only been partially successful. Although active progress was not immediately being made towards economic and monetary union, the idea remained a long-term Community goal. The Community's regional policies involved some Community oversight of our regional plans. The position on steel was admitted to be unsatisfactory. On the issue of sovereignty, the Government would be accepting the permanent curtailment of the powers of Parliament if the European Communities Act were not amended, and the powers of the Commission could not be radically attacked within the present Treaty framework. This transfer of power from Parliament to Brussels would strengthen the internal pressures towards the break-up of the unity of the United Kingdom. Thus we had failed to achieve the fundamental renegotiation to which the Government were committed,
THE PRIME MINISTER then asked those members of the Cabinet who had expressed views against the United Kingdom remaining a member of the EEC whether they would be ready to support the majority view or if they wished to exercise their right - which had previously been agreed in the unique circumstances of the referendum - to differ from the Government recommendation. All the Ministers concerned said that they wished to exercise this right.

THE PRIME MINISTER, summing up the discussion, said that by a significant majority the Cabinet agreed that the United Kingdom should remain a member of the EEC. This would therefore be the Government recommendation and he proposed to make a statement to this effect in the House of Commons that afternoon.

The Cabinet -

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

3. THE PRIME MINISTER said that it would now be necessary for the Cabinet to consider the guidelines within which those members of the Government who could not support the recommendation that the United Kingdom should remain in the EEC should exercise their right to differ from it. Draft guidelines had been prepared for handing round, and they would be circulated for fuller consideration at the next meeting of the Cabinet.

In the course of a brief discussion it was suggested that particular difficulty would arise in connection with the proposals about Ministers appearing on platforms either with Members of Parliament of a different political Party or with Labour Party supporters who took a different view on this issue. It would be impossible to avoid an active debate: what mattered was that members of the Government should conduct it in a comradely spirit with each other.

THE PRIME MINISTER, summing up this brief discussion, said that the Cabinet could not reach conclusions on the proposed guidelines in the time remaining. They would be circulated for fuller consideration at their next meeting. In the meantime members of the Government should abide by the draft guidelines.

The Cabinet -

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

Cabinet Office
18 March 1975
CONCLUSIONS of a Meeting of the Cabinet 
held at 10 Downing Street on
THURSDAY 20 MARCH 1975
at 10.30 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 Items 2-4)

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 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

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 Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon Lord Shepherd
Lord Privy Seal

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

SECRETARIAT

Sir John Hunt (Items 2-5)
Mr B C Cubbon (Item 5)
Mr P Benner (Items 2-4)
Mr E J G Smith (Item 4)
Mr J A Marshall (Items 2 and 3)

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1. This discussion was not recorded.

2. The Cabinet discussed the pay of the Civil Service. Their discussion and the conclusions reached are recorded separately.

3. The Cabinet had before them a memorandum by the Lord President of the Council (C(75) 35), to which was appended a report by officials about possible methods of enabling members of the armed forces and Government servants working abroad to vote in the referendum.

THE LORD PRESIDENT OF THE COUNCIL, summing up a very brief discussion, said that the Cabinet had noted that officials had identified two possible schemes - a supplementary register and voting by units. The first would rely on adaptations of existing arrangements, while the second would be an entirely new scheme. It would not be possible in the time available for the Cabinet to reach a decision. Accordingly he would convene a meeting later that day of the Ministers immediately concerned to consider the report by officials. The conclusion they reached would be reflected in the Referendum Bill, which was due to be considered by the Legislation Committee on 25 March and published on the following day.

The Cabinet -

1. Took note, with approval, of the summing up of their discussion by the Lord President of the Council.

2. Invited the Lord President of the Council, in consultation with the Secretary of State for Foreign and Commonwealth Affairs, the Secretary of State for the Home Department, the Secretary of State for Trade and the Secretary of State for Defence to proceed as indicated in the summing up.
4. The Cabinet were informed of the business to be taken in the House of Commons during the following week.

5. The Cabinet had before them a note by the Prime Minister, circulated under cover of C(75) 41, setting out proposed guidelines on the procedure to be followed by Ministers during the period up to the referendum.

THE PRIME MINISTER, summing up a brief discussion, said that insufficient time remained for full discussion of the proposed guidelines, which would be considered again by the Cabinet at their meeting on 25 March. In the meantime Ministers were free to take part in broadcasts on the basis set out in the guidelines. They should however make careful enquiries in advance in order to avoid appearing, possibly as a result of editing, in an apparently staged confrontation with another Minister or Government backbencher who took a different view about Community membership. Ministers who differed from the Government's recommendation should avoid answering questions relevant to renegotiation or the referendum campaign, and Questions should be transferred as necessary to other Ministers. The Foreign and Commonwealth Secretary would be responsible for supervising the practical arrangements of this until the guidelines could be formally adopted.

The Cabinet -

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

Cabinet Office

20 March 1975
The Cabinet had before them a memorandum by the Lord Privy Seal (C(75) 40) about the pay of the industrial Civil Service.

THE LORD PRIVY SEAL said that the industrial civil servants were concerned about two issues. One was their interim pay claim; the other was the basis on which their next main settlement, due from 1 July 1975, would be made. Within the last week strike action had been started by workers in the Property Services Agency, and in considering the pay questions some regard would have to be had to that fact - if only because it affected the working of Parliament. Even so, the strike only involved some 400 people out of the 180,000 who comprised the industrial Civil Service.

To accede to the interim pay claim would be a plain breach of the 12 month rule, and he was clear that it should be rejected. The unions had been promised a reply by the end of the week, and, subject to Cabinet's views, he would convey a reply in this sense. It would however be essential at the same time to say something about the next main settlement and whether it would be based on comparability. There were three options: to make no commitment on the question of comparability; to reaffirm the principle and accept it as the basis for the next settlement; or to steer a middle course. He regarded the first of these as untenable and the last as unlikely to cut any ice with the trade unions. He therefore favoured the second course, reaffirming the basis to which the Government was in any case already amply committed. This did not mean of course that, subject to that general principle, there would not be room for hard and realistic bargaining when the time came.

Turning to the question of the pay of the non-industrial Civil Service, he said that he had met the Staff Side the previous day and explained to them the fears the Government entertained for the economy generally if they agreed to the 34 per cent increase.
under consideration as a result of the Pay Agreement and the result of the survey done by the Pay Research Unit. He had met with an angry reaction from the Staff representatives, who said that they had withdrawn an interim pay demand on the strength of an undertaking that the main settlement would be subject to normal principles; that the Pay Agreement had been signed as recently as December, and should be honoured; and that if no satisfactory offer were made in the following week, industrial action would be started immediately (indeed it had already begun in one or two provincial towns). He proposed therefore that a small group of Ministers, preferably under the chairmanship of the Prime Minister or the Lord President should consider the possible composition of an offer to be made to the Staff Side the following week, such an offer to be first reported to Cabinet.

In discussion it was pointed out that if the Government confirmed to the unions acceptance of the principle of comparability for industrial civil servants, it would be extremely difficult not to concede it elsewhere. Both the electricity workers, with whom deadlock had been reached, and the railway workers, with whom negotiations were just beginning, based their claims on comparability with other groups of workers - notably the miners; and the TUC guidelines contained no provision for allowing increases on such a basis. In view of this, it would be best to adopt a middle course, indicating to the unions that the Government, like other employers, was expected to comply with the social contract; pointing out that the principle that industrial civil servants should be paid fairly in relation to others had been repeated reaffirmed over the years; and assuring the unions that it was against this background and in this spirit that the Government intended to conduct the negotiations for the next annual settlement. This would not exclude that comparability was relevant, but would stop short of reaffirming it as a central principle. Against this it was argued that the industrial civil servants were not like the electricity or rail workers. The Civil Service had for a long time had their pay fixed by the principle of comparability. This was not the case with the electricity and railway workers, who were seeking to establish something new in their case. On this basis there was no reason why the Lord Privy Seal should not be authorised to confirm the Government’s acceptance of comparability.

In further discussion reference was made to the implications of public sector pay settlements for public expenditure. Public expenditure was always discussed in constant price terms and this tended to obscure the fact that the public sector was highly labour intensive and that consequently its share of wage costs within the total figure of public expenditure tended to rise faster.
than in the private sector. If pay settlements were not kept down, then it would be inevitable that some or all programmes would have to be cut in order to offset the additional cost. The Government would be in a very difficult position with the nationalised industry chairmen, whom it was pressing to observe the guidelines, if they failed to hold down pay increases for their own employees. Indeed, it could be argued that if comparability for the industrial Civil Service was confirmed, it would be even more difficult to handle the claims of the electricity and railway workers. On the other hand, if it was clear that in the end the Government would have to concede comparability, there was much to be said for doing so now and avoiding a charge of bad faith. Not to confirm it would be to run a serious risk of the present strike being made official, with all that this would imply.

OF THE COUNCIL

THE LORD PRESIDENT, summing up the discussion, said that Cabinet agreed that the question of the offer to be made to the non-industrial Civil Service should be considered urgently by a small group of Ministers under the Prime Minister, their recommendation to be reported to Cabinet the following week before the offer was made to the Staff Side. On the question of the industrial Civil Service, there was a general feeling that the real difficulty lay in the absence from the guidelines of any provision which would admit the principle of comparability upon which Civil Service pay had for so long been based. This was something which they should perhaps consider before the beginning of the next general pay round. On the more immediate question, there was agreement that no interim pay claim should be conceded; and the balance of opinion on the issue of comparability was that the Lord Privy Seal should, in rejecting the interim pay claim, indicate confirmation of the Government's acceptance of the principle as the basis for the main settlement in the summer.

The Cabinet -

1. Took note with approval of the Lord President's summing up of their discussion.

2. Invited the Lord Privy Seal to proceed accordingly in replying to the trade unions on the claim by industrial civil servants.

3. Instructed the Secretary of the Cabinet to arrange for a small group of Ministers, as proposed by the Lord Privy Seal, to consider the offer to be made to the non-industrial civil servants, such an offer to be first reported to Cabinet.

Cabinet Office

20 March 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 25 MARCH 1975
at 9.30 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

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 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 Rt Hon Lord Shepherd
Lord Privy Seal

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

ALSO PRESENT

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Item 6)

SECRETARIAT
Sir John Hunt
Mr P D Nairne (Items 3 and 4)
Mr B C Cubbon (Item 4)
Mr H F T Smith (Item 3)
Mr P Benner (Items 1, 2 and 5)
Mr J A Hamilton (Item 6)
Mr E J G Smith (Items 1, 3 and 5)
Mr J A Marshall (Item 6)
Mr N P Brecknell (Item 4)
Mr I A W Fair (Item 4)

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SECRET
1. **Parliamentary Affairs**

   The Cabinet were informed of the business to be taken in the House of Commons during the week following the Easter Recess. It was noted that there would be a free vote at the end of the debate on the Motion to approve the White Paper on Membership of the European Community and the Government's recommendation to continue membership, which was to take place on 8 and 9 April.

2. **Civil Service Pay**

   The Cabinet resumed their discussion of Civil Service pay. Their discussion is recorded separately.

3. **Foreign and Commonwealth Affairs**

   The Foreign and Commonwealth Secretary said that he had discussed the situation with the American Secretary of State when the latter had stopped briefly in London on his return to Washington after the failure of his latest mission to the Middle East. Dr Kissinger had been in a very pessimistic mood. It was important to avoid any public impression that we attributed blame to one side or the other. It seemed likely, however, that the failure of the mission was finally brought about by differences within the Israeli Cabinet. Dr Kissinger had obtained Egyptian agreement to a declaration on non-belligerency in return for Israeli withdrawal from the passes and the oilfields. After protracted discussion the Israeli Government had decided that the declaration in the form proposed did not meet their requirements. We must now expect a period of heightened tension in the Middle East with the attendant danger of confrontation. President Sadat of Egypt would have less room for manoeuvre and would probably feel obliged to follow a more extreme Pan-Arab line. There was a reasonable prospect that fighting would not be resumed during the next few months; the next step would probably be a resumption of talks in Geneva, possibly on a limited agenda. The role and status of the Palestine Liberation Organisation would be an important issue. A reimposition of the oil embargo was not likely in present circumstances but it was likely, in some form, if war were to break out again.
THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in Portugal was confused and potentially dangerous. The Armed Forces Movement was subject to internal stresses and was unpredictable. Reports within the past few days that changes would be made in the Portuguese Government which would represent a step towards the establishment of a totalitarian regime controlled by the Communists, had caused alarm within the North Atlantic Alliance. He had not supported suggestions that Soviet Ambassadors in Alliance capitals should immediately be called in to receive representations and had counselled against any action which could be regarded as interference in the composition of the Portuguese Government. He had, however, instructed our Ambassador in Lisbon to urge upon the President of Portugal, Dr Costa Gomes, the importance of holding the general elections in Portugal on 25 April as planned, and to express our hope and expectation that no changes would be made in Portugal before the elections that would prevent these from being held in a stable and balanced atmosphere. Some other members of the Alliance and the European Economic Community would be sending similar instructions to their Ambassadors.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
4. The Cabinet had before them a note by the Prime Minister (C(75) 43), to which was attached a draft of a White Paper on membership of the European Community.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the White Paper was a supporting document to the Prime Minister's Parliamentary statement of 18 March. It was right that the Government should provide a comprehensive and authoritative statement of the facts about the renegotiated terms and of the Government's assessment. The draft was based on the conclusions the Government had reached and thus reflected the view of the majority in the Cabinet who were in favour of continued membership. The White Paper would be followed by a popular version, which would be distributed to all households before the referendum. Chapter 2 gave the full details of the renegotiated terms. Chapter 3 set out certain other important aspects of Community development. Chapter 4 dealt with the issue of sovereignty on the lines of the Lord President's report to Cabinet following the study by the Legislation Committee. Chapter 5 set out some wider considerations, including the probable consequences of a decision to withdraw from the Community - an aspect which was attracting increasing public attention.

In discussion it was recognised that those Cabinet members who were unable to support the Government's recommendation on European Community membership were also unable to accept much of the substance of the White Paper, which had been drafted as a statement of the Government's case. In considering the draft text, a number of amendments to the draft were agreed. The following main points were made -

a. The draft used the word "our" somewhat ambiguously. The text should be amended where necessary to make clear whether this word referred to the Government or to the country as a whole. References to the "Labour Government" should be confined to references to the Government of 1964-70.

b. Chapter 4 should be amended in accordance with the corrections which the Lord Chancellor had indicated. The role of Parliament, in relation to the introduction of direct elections to the European Assembly and other institutional changes, should be made clear on the lines suggested separately in writing by the Lord Advocate. This Chapter should also mention that United Kingdom courts were required to apply Community law.
c. The references in Chapter 4 to the 1967 White Paper on the legal and constitutional implications of membership might be embarrassing, because of the objections raised by the Government, when in Opposition, during the passage of the European Communities Act 1972. But on balance it seemed right to acknowledge the clear analysis in the 1967 White Paper. Nothing in that White Paper, or in subsequent developments, altered Parliament's undoubted right to exercise its sovereign law-making powers.

d. Paragraph 5.2 should make it clear that the improvements in Community policy towards the developing world meant that countries such as India were now being helped, in addition to African countries.

e. The final paragraph should start with a statement that if the referendum went in favour of continued membership, the Government would be ready to play a "full part in developing a new and wider Europe"; as stated in the Labour Party Manifesto of February 1974. The last sentence of the present draft should be deleted.

f. On balance it seemed desirable to publish the White Paper before Easter; later publication could be severely criticised in Parliament, in view of the debate arranged for the week beginning 7 April. But the Foreign and Commonwealth Secretary should have an opportunity of examining the final text before it went to the printer. This meant that publication could not take place before Thursday 27 March; but it was not considered that publication on that date would carry overriding disadvantages from the publicity point of view.

### OF THE COUNCIL

THE LORD PRESIDENT, summing up the discussion, said that the draft should be amended to take account of the corrections made by the Lord Chancellor in Chapter 4 and of the other amendments agreed in discussion. Subject to the Foreign and Commonwealth Secretary's approval of the final text, the Cabinet agreed that the White Paper should be published on Thursday 27 March.

The Cabinet -

1. Took note, with approval, of the Lord President of the Council's summing up of their discussion.

2. Authorised the publication on Thursday 27 March of the White Paper on membership of the European Community.
5. The Cabinet considered a note by the Prime Minister, circulated under cover of C(75) 41, setting out proposed guidelines on the procedure to be followed by Ministers during the period up to the referendum.

In general discussion there was wide support for the view that the proposed guidelines were insufficiently flexible; and that, if they were rigidly applied in their present form, they could increase the difficulties of the Government in present circumstances. It would be better to place greater emphasis on relying on the good sense and responsibility of all Ministers to act in such a way as to minimise the damage caused by the differences between them.

As to arrangements relating to the referendum campaign in the country, it was suggested that parts of the guidelines set out in paragraph 2(1)-(4) would prove too restrictive to be workable. While no Minister should allow himself to appear to be in direct confrontation with another Minister, it might not always be possible to avoid appearing to be in direct confrontation with a Government backbencher who took a different view, particularly since it would not be practicable to control all the arrangements made by producers of the broadcasting organisations. A restriction on Ministers appearing with representatives of different political Parties or other organisations could not work since the 'umbrella' organisations through which the referendum campaign would be conducted, both in favour of Britain's continued membership of the European Community and against it, necessarily contained representatives of several different political Parties and organisations. Against this it was argued that some restrictions or limitation of activities would be required in the interests of the Party as a whole, especially as it was now apparent that some Ministers had decided to carry their dissent from the Government's recommendation to the extent of leading the campaign against it. On balance the feeling of the Cabinet was that the restriction contained in paragraph 2(3) should be deleted, though it was recognised that all Ministers would have to exercise great care in choosing those with whom they would be associated on public occasions. On the question of speaking in a constituency represented by a Labour Member of Parliament it was felt that the normal courtesies, by which that Member would be consulted in advance, should suffice; the latter's express agreement should be sought where a Minister proposed to address a meeting of the constituency Labour Party.

As regards the Ministerial handling of on-going Community business during the period of the referendum campaign, whether within the Government machine, in Brussels or in Parliament, to which paragraphs 6 and 7 of the Prime Minister's note referred, it was pointed out that a major part of the work of some dissenting
Ministers - and in some Ministries all the junior Ministers also dissented - related to Community business; and the Ministers concerned could not abdicate their responsibility for this. There was general agreement, however, that all Ministers, in dealing with on-going Community business, whether in Brussels or in Parliament, should speak and act in accordance with the Government’s decision, making it plain that they were doing so, and refusing to be drawn into statements conflicting with the Government’s policy. Given such an approach, it would not be necessary to apply a general ban to the attendance of dissenting Ministers at meetings in Brussels, particularly when the issues under discussion were of a technical nature unrelated to the main referendum issues. It was suggested instead that Ministerial attendance at meetings in Brussels should be decided after consultation, and in agreement, with the Foreign and Commonwealth Secretary. Similarly in the Parliamentary handling of Community business, such as Parliamentary Questions and Scrutiny Committee work, dissenting Ministers would have to exercise restraint and good sense, but it should not be necessary to transfer all Questions relevant to renegotiation or the referendum campaign to other Ministers. Ministers should answer Questions in as neutral a way as possible, saying if need be that they were describing the policy of the Government and, if necessary, referring supplementary questions to the Prime Minister’s statement on the results of renegotiation. There would, however, be advantage in establishing under Foreign and Commonwealth Office chairmanship a committee of the Parliamentary Clerks of the Departments directly concerned to consider and refer to Ministers any Parliamentary Questions which might seem to raise particular difficulties. It should remain the responsibility of the Ministers, not of Permanent Secretaries, to ensure that the instructions and briefing for officials with business in Brussels remained in line with Government policy.

While there was no dissent from paragraphs 8-11 of the Prime Minister’s note dealing with the conduct of civil servants, it was agreed there was no objection to dissenting Ministers making use of the normal office facilities, such as photocopying, available to their private offices.

In further discussion the general view of the Cabinet was opposed to the publication of the guidelines in full, but it was suggested that the gist of paragraph 2, dealing with participation in the referendum campaign in the country, could be made public with advantage, possibly by means of an answer to a Question to the Prime Minister. In the expectation that differences of view on Ministerial conduct or activities could well arise during the course of the referendum campaign, it was also suggested that it would not be productive for such issues to be pursued regularly at meetings of the Cabinet. If
a Minister felt that a colleague taking a different view had acted contrary to the guidance, he should make representations privately to the Prime Minister, for the latter to pursue as he thought fit.

OF THE COUNCIL

THE LORD PRESIDENT, summing up the discussion, said that the views of the Cabinet should now be put to the Prime Minister, who would wish to decide the final terms of the guidelines. He would report to the Prime Minister the sense of the discussion on the various aspects which had been considered.

The Cabinet -

Took note, with approval, of the Lord President of the Council's summing up of their discussion.

PUBLIC EXPENDITURE 6. The Cabinet considered public expenditure. Their discussion is recorded separately.
THE LORD PRIVY SEAL said that, following the Cabinet's discussion on 20 March, a meeting of the Ministers principally concerned, under the chairmanship of the Lord President of the Council, had considered what offer should be made to the non-industrial Civil Service. It had been concluded that the lowest offer which could be represented as within the terms of the pay agreement, and which had any chance of acceptance by the Staff Side, was 3⅜ per cent. It was proposed that negotiations with the Staff Side should start immediately after the Easter holiday. The initial offer would be lower than 3⅜ per cent, and if agreement could not be reached at or very near the latter figure the matter would be allowed to go to arbitration.

THE LORD PRESIDENT OF THE COUNCIL, summing up a brief discussion, said that the Cabinet approved the course of action which had been described by the Lord Privy Seal. Any settlement which was reached would cover a period of 15 months, and it was essential that it should be presented publicly in terms of an annual rate of increase. An overall figure of 3⅜ per cent was equivalent to about 25 per cent on an annual basis, and this could be regarded as just within the terms of the social contract. It was particularly important that nothing should be said at this stage about the possibility of going to arbitration.

The Cabinet -

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

Cabinet Office

26 March 1975
The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 39) proposing a reduction of £1,000 million in planned public expenditure in 1976-77; and a memorandum by the Secretary of State for Social Services (C(75)37) seeking authority to announce the 1975-76 capital allocations to health authorities.

The Chancellor of the Exchequer said that the country was living beyond its means by running an external deficit equal to 5 per cent of the Gross Domestic Product (GDP). This deficit was financed by overseas borrowing on the Euro-market and from the oil producers, and so far it had been possible to do this without having any political conditions attached to the loans. In the coming year it would be more difficult to borrow, both because there was less money available and because the United Kingdom's credit was low and falling. The reason for this was that the United Kingdom's rate of inflation was twice that of the other countries in the Organisation for Economic Co-operation and Development (OECD). This affected the balance of payments and the public sector borrowing requirement. The United Kingdom's balance of payments deficit, was the highest of all countries in the OECD and was expected to be of the order of £3,500 million in 1975. The public sector borrowing requirement for 1974-75 was now put at £7,500 million - higher than the estimate in November; and if policies were not changed it would be higher still in 1975-76. A continuance of this situation could lead to a collapse of confidence and a run on sterling. If that occurred, the Cabinet would be faced with a stark choice. Either they would have to adopt the policies appropriate to a siege economy, or they would have to borrow from the international institutions, and possibly the United States, on terms which would to a considerable extent dictate the economic policy to be followed. It would be far better therefore to keep control of events so that the need to make such a choice did not arise.
In his view it was necessary to relate what the Government did in 1975-76 to a plan covering a period of three to four years. He fully accepted that the necessary structural change could not be achieved without intelligent use of the new developments in micro-economic policy represented, for example, by the National Enterprise Board and the introduction of planning agreements; but by themselves these would not be enough. The central problem was inflation, particularly wage inflation. It would be necessary, before the next wage round was due to begin, for Ministers to discuss their approach to it; but there was no possibility of getting a substantial lessening of the rate of wage increases in the current round. Other action must therefore be taken in the 1975 Budget. World trade was falling, and the forecast was that it would not see an upturn until the first half of 1976, when the upturn might be quite rapid. It was essential that the country should then have the productive capacity available to take advantage of the corresponding export opportunities. The key year was likely to be 1976-77, and the proposed cut of £1,000 million in that year was an important element in achieving our objectives. At the time the White Paper on Public Expenditure, published in January, was compiled, the assumption was that the annual growth rate of GDP between 1973 and 1979 would be over 3 per cent. Such forecasts were inevitably uncertain, but it was now thought that growth was more likely to be below 3 per cent. This would imply that there was room for only a negligible increase in privately financed personal consumption. An approach of this kind would inevitably involve increases in direct and indirect taxation; but indirect tax increases fed through into wages by way of their effect on the retail price index (RPI); and the direct tax increase would need to be as much as 5p. -12p. extra on the standard rate of income tax. Increases of this magnitude would put an end to any chance of the trades unions continuing to base settlements on comparisons with the RPI before tax and contributions. Therefore he recommended that, in order to ease the tax changes which would otherwise be necessary in the 1975 Budget, public expenditure in 1976-77 should be cut by £1,000 million. An illustrative distribution of these cuts was contained in the Annex to his paper, and he sought agreement to proceed with bilateral consultations with his colleagues on the precise reductions to be made. He pointed out that various sensitive areas - including school meals and milk, industrial support, agriculture, housing, a range of social services, and basic needs for education - had been left untouched; and he was quite prepared to see flexibility about the way in which cuts were taken on capital or current expenditure. But it was in his view essential to have overall reductions of the proposed magnitude if the Government was to start 1975-76 in control of the economy.
In discussion it was questioned whether the Cabinet could be expected to agree to public expenditure cuts of this order without the opportunity to consider the overall strategy of which such cuts were only a part. Expenditure reductions would do nothing for the balance of payments in 1975-76; nor would they moderate wage inflation in that year. Their major object appeared to be to ensure that when 1976-77 arrived the United Kingdom had sufficient productive capacity available to take advantage of the expected upturn in world trade. It was however arguable that if unemployment continued to grow for the next twelve months there would in fact be sufficient spare capacity available for that purpose without any action being taken by the Government to cut public expenditure. This was a matter on which the Cabinet needed more information, including in particular the forecast of unemployment.

It was further argued that this was not the kind of proposal which could be discussed in isolation. A special discussion of the Government's economic strategy was essential at which possible alternatives to that of which the proposed cuts were a part could be considered. The same was true of the distribution of any cuts which might be agreed, which should be made to reflect a carefully thought out view of priorities rather than the standard Treasury prescription which had been proposed. On a whole range of policies they meant that the commitments in the Party Manifesto would have to be set aside or postponed. Such changes should not be discussed bilaterally; they required collective consideration. It was true that the January White Paper had contained a warning that the Government might have to reappraise the programmes in the light of changing conditions; but it was wrong to contend that this meant the figures would be revised within three months of publication. The truth was the Government had slipped into a crisis, and on the basis of the present proposal they would never be able to build up the social wage through public expenditure as the Labour Party wished to do. The better course would be for the Government to consult fully and candidly with the trade unions, and to take the public into their confidence, confronting the unions with the choices between jobs and higher wages, and between lower taxes or higher public expenditure. There were alternative courses not covered in the papers before Cabinet which should be considered. It was recognised that, given the additional strain imposed upon the balance of payments by the oil price increases of the last eighteen months, more painful policies than simply public expenditure cuts might well be needed; but the whole complex needed discussion. The proposed cuts could be represented as abandoning the social contract completely and constituted a massive deflationary package which would increase unemployment in a way which would make it impossible to get back to full employment in the lifetime of the present Parliament. They
would cut productive capacity and cause falling investment to go even lower. They could lead to a slump of 1931 proportions. There was no question but that imports had to be reduced; the only question was how it should be done. Selective import restrictions were one possibility; and they could be combined if necessary with rationing and allocation of some imported materials, tax increases, transitional employment subsidies, control of capital outflow, control on banks to ensure funds for the public sector and the maintenance of the price code. It was essential that such alternative policies as these should be fully considered.

On the other hand it was argued that an alternative approach of this kind was not remotely viable, being not only protectionist but involving the adoption of a siege economy. A strategy of this kind was not open to a country which was overspending by 5 per cent, since it would make it impossible to borrow overseas, and this would in turn make a very severe cut in living standards unavoidable. While it was true that the expenditure reductions proposed would cause anger and dismay among some Party supporters, the same was true of any satisfactory way of dealing with the problem of inflation. The fact had to be faced that the Government was pursuing three major objectives - a voluntary incomes policy, full employment and a civilised level of public expenditure - not all of which could be simultaneously realised. It had hitherto been held that a statutory incomes policy was unthinkable because it would mean breaking faith with the unions; but the fact remained that the Chancellor's proposals involved breaking other commitments. The Government should therefore reach a judgment on the merits of the situation. Whatever else the Government did, action would be needed drastically to curtail public expenditure. No doubt there was room for discussion on just how the cuts should be applied - eg was it acceptable that, in Health and personal social services they would mean that expenditure would decrease by 0.4 per cent when an increase of 1½ per cent was necessary simply to keep pace with the growth of need?; while in education they would imply that the Government would have to deny posts to trained teachers - but given the present situation, particularly the paramount need to indicate in the April Budget how the public sector borrowing requirement was to be reduced in future, it was essential that cuts of the magnitude proposed should be agreed. Furthermore it would be wrong to regard the proposals as simply a deflationary package. They were part of a larger strategy which aimed to shift resources into export and investment. Without them the other aspects of the Budget would have to be more severe. Public opinion was in any case expecting firm action by the Government.
OF THE COUNCIL

THE LORD PRESIDENT said that insufficient time remained to complete the discussion at this meeting. The Cabinet would resume their discussion later in the day.

Cabinet Office

26 March 1975
CONCLUSIONS of a Meeting of the Cabinet 
held at 10 Downing Street on 
TUESDAY 25 MARCH 1975 
at 5.00 pm 

PRESENT

The Rt Hon Edward Short MP  
Lord President of the Council 
(In the Chair)

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 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

The Rt Hon Robert Mellish MP  
Parliamentary Secretary, Treasury 
(Item 1)

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 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 Rt Hon John Silkin MP  
Minister for Planning and Local Government
**ALSO PRESENT**

The Rt Hon Joel Barnett MP  
Chief Secretary, Treasury

**SECRETARIAT**

Sir John Hunt  
Mr P D Nairne (Item 5)  
Mr P Benner (Item 3)  
Mr J A Hamilton (Items 1, 2 and 4)  
Mr J A Marshall (Items 1, 2 and 4)  
Mr J R Jameson (Item 5)

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1. The Cabinet resumed their consideration of public expenditure. Their discussion and the conclusions reached are recorded separately.

2. The Cabinet had before them memoranda by the Secretary of State for Social Services (C(75) 42) and the Chancellor of the Exchequer (C(75) 44) about the timing of social security benefit increases in 1975.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Ministerial Committee on Economic Strategy had invited her to consider how poorer consumers might be protected against the increase in fuel prices which the Government had approved in order to reduce Government subsidies to the fuel industries. The first uprating of social security benefits and family allowances was due to take place in April 1975. Under the plans embodied in the Public Expenditure White Paper, there would, in July, be increases in family income supplement (FIS), supplementary benefit disregards (SPD) and discretionary heating additions (DHA). The second uprating would then take place in December. This, however, would mean that many beneficiaries would not receive any additional payment until December, several months after the higher fuel prices had begun to affect their fuel bills. This was unacceptable. Simply to bring the uprating to an earlier date, and make no other change, would be operationally impracticable, since the staff concerned were unwilling to undertake the additional load of overlapping work which this would involve. She had therefore proposed that the increases in FIS, SPD and DHA be delayed from July to October (in spite of the disadvantage this involved for the recipients) and that the second uprating of social security benefits be brought forward from December to October, to coincide with the other increases, an arrangement which would be operationally sensible and acceptable to the staff. If this were done, however, she judged that, given the likely continuing rate of inflation, it would be necessary to pay a £10 Christmas bonus. These proposals had been unacceptable to the Chancellor of the Exchequer, on the ground that they would lead to an unavoidable presumption that there would be upratings of social security benefits every six months in later years, and that the £10 Christmas bonus would become a permanent feature. He had suggested as an alternative leaving the increases in FIS, SPD and DHA in July, moving the second social security uprating from December to late November, and bridging the gap during which fuel increases would begin to bite by making a £10 lump sum payment in
September. This however was operationally impracticable, and she and the Chancellor had been unable to agree on any feasible compromise. Her scheme and the Chancellor's were identical in cost in 1975-76, and the point in dispute related solely to the possible consequences for later years. In her view the frequency of upratings in later years would be governed by the rate of inflation rather than by any precedent set in 1975.

THE CHIEF SECRETARY, TREASURY, said that the Government had already extended a considerable degree of protection to pensioners, who had had an increase of 20 per cent in real terms since July 1974. In his view to adopt the proposal of the Secretary of State for Social Services would be to commit £300 million in 1976-77 just at the point of time when he was about to embark on bilateral discussions to agree savings totalling £1,000 million in that year.

OF THE COUNCIL
THE LORD PRESIDENT, summing up a brief discussion, said that there was a clear majority in favour of 15 November as the operative date for increases in family income supplement, supplementary benefit disregards and discretionary heating additions, as well as for the second social security uprating. If, after all, the Secretary of State for Social Services found it was practicable to increase the first three at an earlier date, she would be free to do so. In any event the second uprating of social security benefits and family allowances should take place on 15 November.

The Cabinet -

1. Took note with approval of the Lord President of the Council's summing up of their discussion.

2. Invited the Secretary of State for Social Services to arrange for family income supplement, supplementary benefit disregards and discretionary heating additions to be increased in mid-November; and for the second uprating of social security benefits to take place on the same date; but left her free to make the increases in the first three at an earlier date should this prove practicable.
PHASING OUT PRIVATE PRACTICE FROM THE NATIONAL HEALTH SERVICE

3. The Cabinet had before them a memorandum by the Secretary of State for Social Services about phasing out private practice from the National Health Service (C(75) 27).

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that although there might not be time for the Cabinet to come to an immediate decision, the matter was one of considerable urgency. The National Union of Public Employees had for some time been taking direct action to secure the closure of pay beds and this was likely to intensify. Moreover, the Confederation of Health Service Employees, which had not hitherto been involved, had now indicated that they too would be taking direct action unless a statement of the Government's intentions about the phasing out of private practice in the National Health Service had been made by 8 May.

THE LORD PRESIDENT OF THE COUNCIL, summing up a very brief discussion, said that the Cabinet noted the need for an early decision. There was however not sufficient time to deal with the matter at that meeting, particularly in view of the implications for public expenditure. The Secretary of State for Social Services would no doubt take these into account in the discussions she would be having with the Chief Secretary in the light of the Cabinet's earlier decisions about public expenditure generally.

The Cabinet -

Agreed to resume their discussion at an early meeting after the Easter Recess.
4. The Cabinet had before them a memorandum by the Lord Chancellor (C(75) 38) drawing attention to certain anomalies which had arisen as a result of the decision of the Cabinet in the preceding December to implement only part of the recommendations of the Top Salaries Review Body (TSRB) in their report on top salaries.

THE LORD CHANCELLOR explained that there were certain posts, the pay of which was customarily linked with the pay of judicial posts and which were in practice indistinguishable from comparable posts dealt with in the TSRB report. He could illustrate the anomalous position to which he wished to draw Cabinet's attention by the position of the Law Commissioners. The Chairman, being a high court judge, had had his salary increased by the decision of last December. The Secretary of the Commission (who was an Under Secretary in the Civil Service) had also received an increase by the same token. But the Commissioners themselves had so far received none, with the result that they were now receiving less than the Secretary. In his view this kind of anomaly was not a situation which should be allowed to continue, and he recommended that steps be taken to give consequential increases to the holders of the posts listed in the Annex to his memorandum.

OF THE COUNCIL.

THE LORD PRESIDENT/, summing up a brief discussion, said that the Lord Chancellor was appealing against an earlier decision which had been taken by the Ministerial Committee on Economic Policy. There was a wide range of posts, the pay of which was fixed as a consequential of the posts covered in the TSRB report; a number of anomalies had arisen because of the decision in December to postpone any increases in the pay of nationalised industry posts until the receipt of the report of the Royal Commission on Income Distribution and Wealth. However, there was a clear view in Cabinet that it was not possible to agree increases for the posts referred to by the Lord Chancellor in advance of the rest.

The Cabinet -

Took note with approval of the Lord President of the Council's summing up of their discussion.
5. THE LORD PRESIDENT OF THE COUNCIL recalled that on 20 March the Cabinet had agreed that he should convene a meeting later that day of the Ministers immediately concerned to consider the report by officials attached to C(75) 35 about two possible schemes for enabling more members of the Armed Forces and Government servants working abroad (i.e., Service voters) to vote in the referendum. At present only about a quarter of Servicemen were on the register. Scheme A provided for a supplementary register on the basis of early declarations for next year's register, with special arrangements to allow postal instead of proxy voting. Scheme B would allow members of the Armed Forces to vote in person in their units.

A meeting of the Ministers concerned had been unable to reach a decision. Some had argued that, by using one or other of the two schemes, provision should be made to enable more Service voters to vote in the referendum. Others had taken the view that it would be wrong to make an ill-prepared departure from the General Election rules that might not, in the event, yield a bigger Service vote and might delay the referendum. However, they had all agreed that the Referendum Bill should be published on 26 March without any special provision for Service voters; that he should report the position to the Cabinet; and that, if the Cabinet decided to make such a provision, the Government should move the necessary amendments in Committee.

In discussion it was argued that both schemes, as well as being wrong in principle and uncertain in operation, would (because of the time required to implement them) make it more difficult to hold the referendum before 19 June; and it now appeared desirable to hold the referendum as early as possible in June. Moreover it would be wrong to depart from the existing arrangements without full discussion by a Speaker's Conference.

On the other hand it was pointed out that there was already strong pressure in Parliament for the enfranchisement of more members of the Armed Forces. The Service authorities were confident that adequate arrangements could be made for Scheme B, in such a way as greatly to increase the number of Servicemen and their wives who would have a chance to vote. This scheme (as distinct from Scheme A) would not prevent the referendum from being held on 5 June if this date were finally preferred on general political grounds.

In further discussion it was suggested that, notwithstanding the Cabinet's decision on 13 March against postal votes for holidaymakers, there should be a free vote for Government supporters in the House of Commons if amendments to the Bill providing for such postal votes were moved in Committee. Against this it was argued that the carrying of such amendments might delay the passage of the Bill in the House of Commons and cause difficulties for the Government in the House of Lords. It was right, as the Cabinet has agreed on 13 March,
to have a free vote on the national count because that would be a unique arrangement for a unique occasion. But, if holidaymakers were given postal votes in the referendum, it was likely to prove impossible to deny them the same facilities in General Elections.

THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said that a majority of the Cabinet took the view that Scheme B should be adopted for Servicemen and their wives. The Cabinet accordingly agreed that he should arrange for appropriate enabling amendments to be moved by the Government to the Referendum Bill in Committee. Action should now be taken in the Departments concerned to settle what detailed provisions for Service voters should be made in the draft Referendum Order. The Secretary of State for Defence should make administrative arrangements as a matter of urgency to implement Scheme B and ensure that it would be effective if it were decided to hold the referendum as early as 5 June. These arrangements should be reported to the Home Secretary and himself.

It was the view of a majority of the Cabinet that there should not be a free vote on the question of postal votes for holidaymakers. The Cabinet accordingly reaffirmed their decision of 13 March and agreed that steps should be taken to secure the defeat of any amendments to the Referendum Bill on this issue.

The Cabinet -

Took note, with approval, of the Lord President of the Council's summing up of their discussion.

Cabinet Office

26 March 1975
The Cabinet resumed their consideration of a memorandum by the Chancellor of the Exchequer (C(75) 39) proposing a reduction of £1,000 million in planned public expenditure in 1976-77; and a memorandum by the Secretary of State for Social Services (C(75) 37) seeking authority to announce the 1975-76 capital allocations to health authorities.

In the resumed discussion it was again argued that, after the October 1974 election, the Government should have reviewed in depth their longer-term economic strategy. This had not happened. The public expenditure cuts now proposed were only one item among a package of measures which needed to be considered more widely. The cuts by their effects on subsidies and rents would involve breaches of the social contract and of the election Manifesto and they would increase the level of unemployment by up to 100,000 above what it would otherwise have been. The presentation of such proposals was of very great importance, and there should be discussions with the trades unions in advance to get some kind of agreement; otherwise the Government's claim to consult the unions would appear meaningless. Such consultations should cover not only public expenditure but other elements in the strategy which should be put to the unions as a choice so that they understood and accepted that lower council rents and higher food subsidies necessarily involved higher direct taxation. The unions, and indeed the people of the country, needed to be faced with the ineluctable choices; if high levels of unemployment were to be avoided then there would have to be a much tougher version of the social contract. The Budget statement should make clear the alternative scenarios to that envisaged in the Chancellor's package, scenarios which might include a transitional employment subsidy and a basic poverty programme in return for greater wage restraint. In this way it would be possible to demonstrate that the extent of the cuts needed in public expenditure was dependent upon the extent to which the country was prepared to go along with alternative policies. Unless something like this were publicly
presented, the chances of ever getting a tougher, mark 2 version of the social contract would be jeopardised. In relation to the balance of payments problem it was disturbing that the Chancellor's proposals appeared to do little about moving resources into the exporting industries. There might be a case for temporary import restrictions of the kind used in both France and Italy; but it was important that they be transient otherwise they and other measures in the so-called siege economy could destroy the competitiveness of British manufacturers.

It was also argued that -

a. In the light of the country's current economic difficulties it could be argued that the cuts proposed were much too small. Admittedly some of the commitments in the Manifesto might suffer, but it was going too far to say they were being abandoned - the cut proposed was only 2 per cent of the total in one year, and although this would mean deferring some projects, the most sensitive areas had been spared.

b. It would be important for senior Ministers to consult closely with the Trades Union Congress (TUC) on the present situation and the strategy proposed for dealing with it. The Government had a good record in fulfilling its part of the social contract and there was no denying that the major breaches of the contract had come from the unions. Nor was it necessarily true that the trades union movement would be so opposed to cuts in public expenditure as had been suggested; on past experience they would prefer expenditure cuts to increases in direct taxation.

c. Of the large spending programmes, only defence had been subjected to collective consideration by Cabinet. Given the extensive defence review which had just been completed, culminating in the publication of a White Paper only a few days previously, the present proposal, as far as defence was concerned, was simply an arbitrary cut which formed no part of a general plan.

d. The Parliamentary situation today was not what it was during the parallel experience of the 1960s. The Government had a much smaller overall majority in the House of Commons. If the Government decided on cuts of the size now proposed, they must expect opposition from their own backbenchers which would make the passage of essential legislation difficult. For this reason it was necessary for the whole strategy to be discussed with the TUC and the Confederation of British Industry (CBI), and for the whole Labour movement and the nation to be shown the need for a tough strategy.
In further discussion it was argued that unemployment in the United Kingdom was lower, and rising more slowly, than in any other major industrialised country: the social contract had not been fulfilled in terms of wage restraint and a good case could be made for a more draconian package even than that which had been proposed. It needed also to be remembered that in the last year the social wage had been increased by 12 per cent in real terms, at a time when private consumption had been able to go up by only 1 per cent. It could be argued that, while public expenditure cuts were taken seriously by the political parties and the trades unions, they made far less impression on the general public. It was of vital importance to make clear that whatever unpleasant features the Budget contained, it might have been possible to mitigate them had there been lower wage settlements. It was impossible to reflate with the present level of wage increases. The expenditure cuts proposed were essential as a means of coping with the position as it was now. Even so, such macro-economic measures could not deal with all our economic difficulties; micro-economic measures to stimulate exports, restructure industry, retrain workers, were needed as well.

OF THE COUNCIL
THE LORD PRESIDENT, summing up the discussion, said that it was clear that a majority of the members of Cabinet were in favour of the proposals put forward by the Chancellor of the Exchequer. The structure of his Budget as a whole could not be put into commission, but no doubt in framing his Budget statement he would take into account the points which had been made in discussion. These would also be reported to the Prime Minister. Bilateral discussions between the Chief Secretary, Treasury and the individual spending Ministers should proceed as a matter of urgency and there would be a further discussion by the Cabinet of the distribution of the overall reduction in public expenditure during the week beginning 7 April. On the question of the capital allocations to Regional Health Authorities in 1975-76, if the announcement of these would in no way affect the ability of the Secretary of State for Social Services to offer her share of the 1976-77 cuts, then she could write to the health authorities accordingly. If this were not the case, she should consult the Chief Secretary, Treasury on what could be done.

The Cabinet –

1. Took note with approval of the Lord President of the Council's summing up of their discussion.

2. Invited the Chancellor of the Exchequer to report back in the second week of April on the outcome of the bilateral discussions with the spending Ministers.
3. Authorised the Secretary of State for Social Services to announce the capital allocations to Regional Health Authorities for 1975-76 provided she were satisfied that this would in no way impair her ability to make her share of the agreed 1976-77 reductions; but to consult the Chief Secretary, Treasury on what action to take if she were not so satisfied.

Cabinet Office

26 March 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on TUESDAY 8 APRIL 1975 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 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 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 Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment (Item 2)

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 William Ross MP
Secretary of State for Scotland

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

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

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

Mr Gerald Fowler MP
Minister of State, Privy Council Office
(Item 1)

SECRETARIAT

Sir John Hunt
Mr P D Nairne
Mr B C Cubbon
Mr J R Jameson (Item 1)

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1. THE PRIME MINISTER recalled that at the meeting of the Cabinet on 25 March there had been a firm consensus in favour of holding the referendum as early as possible in June - if possible on Thursday 5 June. This choice of date would have important political advantages: it would shorten the campaign and mean that fewer people would be on holiday (thus reducing the pressure for postal voting). He recognised, however, that there were problems about a date as early as 5 June in Scotland because the new regional authorities there, which would be responsible for the local conduct of the poll, would only be taking office on 16 May.

THE SECRETARY OF STATE FOR SCOTLAND said that hitherto his discussions with the regional authorities in Scotland had been on the basis that the referendum would not be held before 19 June. Three of them - Borders, Tayside and particularly the Highland Authority - had expressed serious doubts, because of staffing problems, about their ability to conduct the referendum even on 19 June, though that date should be manageable. The doubts and difficulties would be all the greater if an earlier date were proposed. A referendum on 5 June would leave only 13 working days after the local government reorganisation came into effect.

In discussion it was suggested that, the Scottish problem apart, there could be some advantage in holding the referendum on 19 June. This would leave a longer interval after the Spring Bank Holiday; and it might prove fairer so far as the campaigning organisations were concerned. Against this it was argued that a date later than 5 June would cause problems at least equal to those in Scotland, notably in respect of people on holiday; for example, 12 June would clash with miners' holidays in some areas, and by 19 June the school holidays in Glasgow would have started. The Committee and remaining Stages of the Referendum Bill would be taken in the House of Commons on 22 and 23 April (with the possibility of a third day on 24 April). Subject to that, the Bill would be introduced in the House of Lords on 23 April in the expectation that Royal Assent would be obtained by 8 May. This would leave time for the Referendum Order in Council to be made immediately after its approval by both Houses of Parliament early in the following week. Thus, unless some unexpected hitch occurred, the Parliamentary timetable should be achieved in time to hold the referendum on 5 June.

In further discussion there was strong support for the view that, while the Scottish problem was a very real one, the difficulties might be largely confined to certain parts of Scotland and every effort should be made to find a solution compatible with a referendum date of 5 June. With this in mind, the new regional authorities in Scotland might be able to enlist the help of the staff of the existing local authorities, the new district councils and the sheriff clerk service, appropriately
The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
2. THE PRIME MINISTER said that the arrangements relating to the conduct of Ministers on the referendum issue had got off to a reasonably good start. In accordance with the Cabinet discussion on 25 March, the guidelines which he had issued (C(P)(75) 1) precluded Ministers who differed from the Government's recommendation from speaking in the current debate in the House of Commons on the recommendation. The Cabinet had not however discussed whether dissenting Ministers should be free to vote at the end of the debate against the Government Motion. The Whip issued to the Parliamentary Labour Party had indicated that there would be a free vote on the Motion, but it had been represented to him that Ministers who differed from the Government's recommendation should not vote against the Motion, but should abstain. Given the number of dissenting Ministers it could raise serious constitutional issues if they all voted against the Government Motion, and it was arguable that the free vote should not apply to Ministers. He would welcome the views of the Cabinet on the matter.

In discussion the general view of the Cabinet was strongly in favour of allowing Ministers a free vote in the debate; there had been an assumption that this would happen, whichever way the Government's recommendation had gone. The result of the vote would be freely used in the referendum campaign as an indication of the view of the House of Commons, and a false picture would be given to the country if Ministers were unable to vote according to their convictions. Those Ministers who were known to intend to vote against membership in the referendum would find it difficult to explain in their constituencies a failure to vote in the same sense in the House of Commons. The deep divisions on this issue, between Ministers and within the Labour Party, were well known, and a free vote would not itself significantly increase the embarrassment they caused. After the referendum however the Labour Party could be expected to coalesce again, and the verdict of the electorate should then be accepted by the Government. Moreover if a free vote in the present debate was not extended to Ministers, there would be the strongest objections, at all levels of the Government and among backbenchers, resulting in a number of rebels in the Lobby and in animosity and dissension on a scale which the "agreement to differ" was designed to avoid. The three-line Whip, imposed on Labour Members in the debate on Community membership in October 1971, had caused considerable bitterness, even though no formal action had been taken against those who had not obeyed it. If a free vote were allowed on the present occasion, some Ministers outside the Cabinet who were unable to support the Government's recommendation might feel in the event that abstention was the appropriate course; the decision to vote against was not one they should take lightly.
In further discussion it was suggested that, as a modification of the guidelines, one or two Ministers who could reflect their experience of the European Community while in office should be free to speak in the present debate against the Government's recommendation, but the Cabinet confirmed their earlier view that this would be entirely inappropriate. Although the National Executive Committee of the Labour Party had decided that both sides of the argument should be put from the platform to the special conference of the Labour Party, this was not a true parallel for the Government's position in the House of Commons, where Ministers should speak only in accordance with Government policy.

THE PRIME MINISTER, summing up the discussion, said that it might have been preferable if the question of voting by Ministers had been considered by the Cabinet at the time of their decision on the "agreement to differ", when the nature of the Government's recommendation was not known. Nevertheless, the general view of the Cabinet was that Ministers should have a free vote at the end of the current debate. There should be no change in the guideline that Ministers should not speak in Parliament except in support of the Government's recommendation.

The Cabinet -

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

Cabinet Office

8 April 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 10 APRIL 1975
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 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 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 Robert Mellish MP
Parliamentary Secretary, Treasury

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

ALSO PRESENT

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Item 3)

SECRETARIAT

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

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

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Clerides seemed to be on the verge of resigning as the Greek Cypriot negotiator in the inter-communal talks. If the talks were resumed the prospects for a successful outcome were not favourable: there was no sign of flexibility on the Turkish side. Meanwhile relations between Greece and Turkey were exacerbated by the presence of Greek forces in the Dodecanese in violation of the Greek obligation to keep the islands demilitarised. The Turkish Government had sent protests to the United Nations, and to us. The situation was potentially dangerous.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Communist forces were now in a position to threaten Saigon itself. The survival of a Government under the continuing leadership of President Thieu seemed unlikely. The Communists would however probably prefer to complete their domination of South Vietnam by political rather than military means and this might happen if President Thieu were replaced by someone who was prepared to negotiate with the Provisional Revolutionary Government, with a view to forming a coalition. Such a coalition could not of course be expected to endure: the non-Communist element would in due course be eliminated from it. The implications of developments in Vietnam and Cambodia for the political future of other countries in the area must be a matter of concern.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 46) on the results of the bilateral discussions about the distribution of the overall reduction in expenditure agreed by Cabinet on 25 March.

**THE CHANCELLOR OF THE EXCHEQUER** said that agreement had been reached on some £870 million towards the £1,000 million savings. On defence the Secretary of State for Defence was only prepared to agree to a cut of £100 million instead of £200 million in 1976-77 although he was willing to try to accelerate the savings of later years which would result from the recent Defence Review. Agreement had not been reached with the Secretary of State for the Environment on a cut of £33 million in the expenditure on bus subsidies and grants or on postponing plans for introducing community ownership of development land, the cost of which was an unquantified charge on the contingency reserve. There was also disagreement about two smaller amounts - £3.3 million for certain oil-related road investment in Scotland, and £3 million for motorway expenditure in Wales. This left him with a gap of some £140 million, and he invited the help of his colleagues in finding ways of bridging this. One possibility would be to abandon the mid-term census, which would save £15 million in 1976-77, and he recommended that this should be done.

In discussion the following points were made -

a. The proposed reduction was highly discriminatory. Whereas defence expenditure was only about 10 per cent of total public expenditure, a cut of £200 million represented 20 per cent of the total cuts sought. Against this it was argued that average reductions had little meaning, since the Chancellor of the Exchequer had identified and excluded a number of priority areas.

b. A £200 million cut, coming so quickly in the wake of the recent Defence Review, would destroy any confidence our allies in the North Atlantic Treaty Organisation might have in our intentions. In particular, the United States Administration had expressed the view that the Defence Review reductions represented the limit of what was tolerable. It was clear that to go further would severely strain our relationships with the United States, and this was an important consideration given the probable need for American support in other ways in the future.
c. Further cuts could only be achieved by cutting out projects; and this would in turn mean causing redundancies in productive industry. Some firms were already avoiding redundancies by stepping up their work on defence production as work on civil production fell. On the other hand it was argued that there was likely to be a marked increase in economic activity by 1976-77 and there was a risk of manpower shortages in manufacturing industry.

d. Some of the assumptions in the current White Paper on Defence were already in danger of being invalidated: for example the withdrawal of forces from Cyprus had been delayed. The extra costs thereby incurred represented a further cut in the defence budget.

e. The Cabinet had only recently accepted the concept put forward by the Chiefs of Staff of a "critical level" below which it would not be possible to maintain the United Kingdom's major defence roles in the Eastern Atlantic and in Europe, as well as lesser roles in other parts of the world. It was true that this country was the only European power attempting to cover two such major roles; but it was also clear that a reduction in expenditure in 1976-77 of the order of £200 million could only be achieved by strategic decisions which should not be taken by Cabinet on the basis of proposed blanket cuts without knowledge of the implications for the country's role in the world at large.

The £75 million reduction proposed in health and personal social services had been accepted by the Ministers concerned but it was pointed out that because the population was aging, an increase of 1½-2 per cent a year in expenditure in real terms was necessary simply to maintain an unchanged level of service: as a result cuts in capital expenditure would have to be £41 million instead of the £36 million which the standard 10 per cent reduction in capital spending would have required. For some services capital allocations for 1975-76 had already been announced, and these would have to be called in and reduced - something which had never previously been done. There would be further pressures on Health Service expenditure later in the year. Charges for dental services had been frozen, but fees to dentists were likely to have to be increased, and unless charges were also to be raised this would mean the absorption of the cost - some £18 million - in existing totals.
On the proposal to reduce bus subsidies and grants by £33 million in 1976-77, it was argued that such a move was quite impracticable. Expenditure under this head was already planned to be very heavily reduced between 1975-76 and 1976-77; and one consequence of this would be a drastic increase in fares such that, if further cuts were made, they would have to be trebled between early 1975 and 1977. The political implications of such increases were serious. They implied a total reversal of the Party's policy of favouring public transport. Furthermore, there was the danger that individual local authorities, rather than increase fares or reduce services, would in fact maintain the services at the expense of the rates.

On the proposal to cut £3.3 million of oil-related roads investment in Scotland, it was pointed out that in the 1974 public expenditure exercise it had been agreed that oil-related expenditure should be excluded from any reductions. Oil developments led to the need, not only for roads, but for houses, schools, water supplies, police, and a whole range of other services. In further discussion it was maintained not only that the disputed cut of £3.3 million in road expenditure should not be made, but that a further £2.4 million should be agreed to enable the subsidy to McBrayne's lor transport to the Western Isles, to be increased, since this could not be accommodated within the restricted programmes.

A cut of £3 million was proposed on motorway expenditure in Wales. It was argued that this would be wrong in view of the importance of the M4 to the Welsh economy. It was unfortunate that the cost was bunched in 1976, but even so the motorway would not be completed till after 1980. On grounds of regional support it should not be reduced - indeed there was a case for spending more.

It was argued that, although the information which would be obtained from a mid-term census was important for a number of Departments, and not least for determining the allocation of expenditure to local authorities, in view of present stringencies the proposal to hold such a census should be abandoned.
In the course of discussion there was criticism of the way in which this, and earlier, public expenditure exercises had been conducted. Ministers generally had had no proper opportunity to consider and discuss the economic considerations which led the Chancellor of the Exchequer to propose cuts on the present scale, nor any opportunity to discuss in a considered way the public expenditure priorities which should shape the composition of such cuts. In particular, it was desirable given the constraints of short-term economic requirements, for Cabinet to give thought to the social priorities they would wish to see realised by, say, 1979, so that interim decisions could be taken in the light of the longer-term objectives. Even the Public Expenditure Survey system, which produced material for Ministerial consideration each year, gave Ministers opportunity to do little more than make small changes at the margins within a very limited timetable. Some more satisfactory procedure was required - although it was recognised that no procedure would be helpful if all spending Ministers took purely Departmental attitudes, leaving the Chancellor of the Exchequer to judge between them.

Criticism was also directed at the concept of the public sector borrowing requirement, which, it was suggested, had been allowed to become something of a fetish, forming a barrier to the realisation of sensible policies. The doctrinal basis of the borrowing requirement, its definition and its significance, all deserved further study. It should not be allowed to discourage a shift from private to public financing of investment essential to the future health of manufacturing industry in the country. There was also the question whether public expenditure discussions should not also cover those claims - such as help to ailing firms, the Crown Agents, the building societies - which made little demand on resources but increased the borrowing requirement.

Concern was expressed about the lack of control over local authority expenditure, although it was recognised that a large part of the cuts proposed by the Chancellor of the Exchequer would in fact fall on local authority services. It was also true that much of local authority expenditure, particularly in the social service field, was the result of policies which had been urged by the Government themselves. The consequences of this for rates were very serious. After an average rate increase of 25 per cent this year, an increase of 40 per cent was likely for 1976-77, and it had to be recognised that there could be serious political consequences in local elections. It was felt that there was a great deal of waste and extravagance by local authorities; and it was noted that payments to councillors introduced by the Labour Government were now being made even to meetings of Party caucuses, a development which should be stopped.
THE PRIME MINISTER, summing up the discussion, said that, of the reductions of £1,000 million in 1976-77 proposed by the Chancellor of the Exchequer and set out in Annex B to C(75) 46, Cabinet agreed to just over £900 million. This was made up of the programme cuts proposed by the Chancellor of the Exchequer, with the following exceptions. Instead of a cut of £200 million on defence, there would be a cut of £110 million; but it was accepted that the Secretary of State for Defence would initiate detailed studies to attempt to accelerate the savings in later years resulting from the recent Defence Review. The Secretary of State for the Environment had agreed to make savings totalling £10 million out of the £33 million which had been in dispute on local authority subsidies to buses and new bus grants to private operators. The Cabinet agreed, however, that there should be no postponement of the introduction of community ownership of development land. On the expenditure of the Secretary of State for Scotland, it had been accepted that the disputed expenditure of £3.3 million on oil-related roads investment should be allowed to proceed; and moreover a further £2.4 million of expenditure on the subsidy to McBrayne's had been agreed, making a total derogation from the savings sought by the Chancellor of the Exchequer of £6 million. The £3 million saving on Welsh motorway expenditure which the Chancellor of the Exchequer had asked for would be set aside. Furthermore it was agreed that the mid-term census should not be held, which would lead to a saving of £15 million in 1976-77. The net effect of all these adjustments was that the total savings, as compared with the White Paper, which the Chancellor of the Exchequer had to announce in his Budget statement, would be just over £900 million. There was clearly some dissatisfaction among members of the Cabinet about the way in which public expenditure decisions were taken. He would himself consider what arrangements should be made to enable the Cabinet in future to reach a collective view on its public expenditure strategy. There was also a need to re-examine the present definition and significance of the public sector borrowing requirement. The question of grants to bus operators to purchase new buses required review in the light of the industry's inability to supply the growing demand for bus exports to developing countries. The Treasury, the Department of Trade and the Department of the Environment should consider this question jointly. The phasing out of private practice in the National Health Service should be considered further in the Social Services Committee and, if agreement on policy could be reached there, subsequently in Legislation Committee.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. Agreed to the savings proposed by the Chancellor of the Exchequer in Annex B to C(75) 46, with the following derogations: Secretary of State for Defence £90 million; Secretary of State for the Environment £23 million; Secretary of State for Scotland £6 million; Secretary of State for Wales £3 million. The intention to hold a mid-term census in 1976 was abandoned, with a consequential saving in 1976-77 of £15 million. The net effect of these adjustments was to reduce the proposed savings in that year from £1,008 million to just over £900 million.

3. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Trade and the Secretary of State for the Environment, to consider the justification for grants to bus operators in the light of the present inability of United Kingdom bus manufacturers to meet rising export demand.

4. Invited the Chancellor of the Exchequer to consider the definition and significance of the public sector borrowing requirement, and to report back in due course.

5. Took note that the Prime Minister would consider the arrangements which should be made to enable the Cabinet in future to reach a collective view on its public expenditure strategy.

Cabinet Office

10 April 1975
THE CHANCELLOR OF THE EXCHEQUER reported to Cabinet that he proposed to announce in his Budget statement certain additional expenditure on retraining and restructuring. In conjunction with the Secretary of State for Employment and the Manpower Services Commission arrangements had been made for an expansion of industrial retraining by an additional 30,000 places, at a cost of £20 million in the current year. In conjunction with the Secretary of State for Industry he had arranged for £50 million to be made available for soft loans for major projects in development areas, which should lead to the generation of some £250-£300 million of additional manufacturing capacity; and for £50 million to be available for restructuring the ferrous foundries and the machine tools industries.

THE PRIME MINISTER said that these developments would be welcome; and he reminded the Cabinet of the need to maintain their complete secrecy until the following week's Budget statement.

The Cabinet -

Took note.

Cabinet Office

11 April 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
MONDAY 14 APRIL 1975
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 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

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 John Silkin MP
Minister for Planning and Local Government

SECRETARY

Sir John Hunt

SUBJECT

THE BUDGET
THE BUDGET

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.

Cabinet Office
14 April 1975
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
THURSDAY 17 APRIL 1975
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 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
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 (Items 2 and 3)
Mr H F T Smith (Item 2)
Mr P Benner (Item 1)
Mr J R Jameson (Items 1 and 3)
Mr C R Walker (Item 2)

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

It was noted that, because of the slow progress being made with the Industry Bill in Committee, it would probably shortly be necessary to make the Bill the subject of a timetable Motion.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that although a number of the Arab leaders and the Soviet Union were advocating a return to the Geneva Conference in their public statements, it was fairly clear that there was no great enthusiasm for this. Israel, Egypt and the United States, at least, hoped to return to the step by step approach to a settlement which the American Secretary of State, Dr Kissinger, has been pursuing. It now seemed possible that the immediate cause of the failure of Dr Kissinger's last visit to the Middle East was a misunderstanding between him and the Israelis during the final stages. If, however, the step by step approach was to be resumed with any prospect of a successful outcome, the Israeli Government would need to adopt a more flexible policy of negotiation and the Prime Minister and he had urged this when the Israeli Foreign Minister, Mr Allon, has called on them earlier in the week. With Mr Allon's agreement he had given an account of their discussion to the Federal German Foreign Minister, Herr Genscher, so that if it seemed useful to do so it might be used in the discussions which Herr Genscher was to have with President Sadat of Egypt.

THE FOREIGN AND COMMONWEALTH SECRETARY said that although the relations between Mr Clerides and President Makarios appeared to be deteriorating still further, the former had not carried out his threat to resign as the Greek Cypriot negotiator in the inter-communal talks. These were to begin in Vienna on 28th April. There was little evidence that the Turkish Cypriot negotiator, Mr Denktash, would be in a position to adopt a conciliatory attitude and the prospects for progress were not favourable.

The Cabinet -

1. Took note of the statements by the Foreign and Commonwealth Secretary.
THE FOREIGN AND COMMONWEALTH SECRETARY said that the preliminary conference of oil producing and consuming countries, held in Paris, had developed into a confrontation between the consumers who wished to confine the discussions to energy supplies, and the producers who wished to extend the field to include other raw materials. The conference had as a result failed to achieve anything. The prospects for it had never been good since the French had regarded it largely as a means of advancing French national interests with the Arab States, while the Americans had strong reservations about the value of a conference of the kind proposed. It would be wrong to abandon the aim of achieving co-operation between energy producers and energy consumers, but we should not be in too great a hurry to reinstate a conference. It was important to find some way of dealing separately with the problem of raw materials other than energy sources, and the initiative which the Prime Minister would be taking at the forthcoming meeting of Commonwealth Heads of Government in Kingston, Jamaica on the subject of commodities should provide a starting point. If we could engage Commonwealth support for the ideas we had in mind, this might lead to wider support in the United Nations and elsewhere. The initiative had received a general welcome from our partners in the European Economic Community.

THE PRIME MINISTER, summing up a brief discussion, said that it was clearly desirable to deal with energy and other commodities in separate discussions. The next step would be the initiative on commodities which he would be taking in Jamaica. He would be visiting Washington on his way back from Jamaica and would discuss with President Ford the way to move forward towards discussions on energy with the producing countries.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion.
3. The Cabinet had before them a memorandum by the Lord President of the Council (C(75) 46) about the right of United Kingdom citizens overseas to vote in the referendum.

THE LORD PRESIDENT OF THE COUNCIL recalled that on 13 March the Cabinet decided that British people living abroad who were not on the current register should not be enabled to vote in the referendum. The Referendum Bill accordingly made no provision for them. There was however a good deal of pressure on the Government to reverse this decision which had been strongly criticised during the Second Reading debate on 10 April. At the end of that debate the Parliamentary Secretary, Treasury, received a letter signed by about 40 Labour Members, urging the Government to make arrangements to enable British people living abroad to vote in the referendum; and some of them had subsequently put down an amendment to the Bill to this effect. The letter had also included the separate proposal that postal voting should be allowed to holidaymakers.

There was a serious risk that, if the Government continued to resist in Committee in the following week the proposal about British people living abroad, the proceedings would be prolonged and an amendment would be carried against the Government. This might delay the referendum from 5 June (which was otherwise feasible now that it was clear from Sir Philip Allen's report that the Scottish problem could be solved) to 19 June, since Earls Court was not available on 12 June. Officials had accordingly been instructed to report urgently on the feasibility of a scheme for the enfranchisement of defined categories of British people living abroad. Their report, which was in the Appendix to the paper, showed that a scheme could be devised which would substantially meet what was required, but with a number of imperfections and anomalies. This scheme would represent a major departure from the arrangements obtaining at Elections. In his judgment, however, there was little risk that a Speaker's Conference would recommend that it should be imported into electoral law - though this risk would apply with great force to any proposals to allow those on holiday to vote by post in the referendum, which he believed that the Government should continue to resist to the utmost. On balance, and in the light of discussions he had had with the backbenchers concerned, he recommended that the Government should adopt the scheme described in the Appendix to his paper and that he should table Government amendments to the Bill to give effect to it.

The Cabinet first considered the question of giving postal votes to holidaymakers. It was argued that there was a possible case for conceding this, in the unique circumstances of the referendum, chiefly because of the threat it presented to the timely passage of the Bill. If the upshot was the postponement of the referendum till a later date, the case for postal votes for those on holiday would be
even stronger. Although there would be technical difficulties in making the arrangements in time for polling day on 5 June, they should not be insuperable. Moreover, from the wider aspect of electoral practice, it might not be possible to avoid indefinitely the possibility of introducing postal voting for holidaymakers into General Elections.

Against this it was strongly argued that, on grounds of principle and political factors, the Labour Party had always been resolutely opposed to an extension of voting by post. The holding of the referendum did not justify a departure from this position. Even if the Government were in the event defeated on the issue, their subsequent position would be stronger at a Speaker’s Conference which considered this extension to arrangements for General Elections. In preparing for the referendum, an extension of postal voting would increase the difficulties of the local authorities in Scotland. Everything possible should therefore be done to resist this proposal and defeat any amendments, recognising that any defections among Government supporters could well be offset by the votes of the smaller Opposition Parties.

The Cabinet then considered the proposals relating to British people living overseas put forward by the Lord President of the Council. It was argued in their favour that the prospect of a Government defeat was very real, and that an initiative by the Government would also assist in resisting postal voting for holidaymakers. It was clear that those who would qualify would include a significant number of people doing valuable work overseas who could not be on the register at home and would reasonably feel entitled to vote in the special circumstances of a national referendum; the scheme outlined in the report by officials might be more narrowly drawn so as to eliminate anomalies so far as possible, and to exclude, for example, people over 60 and others unlikely to have a real connection with this country. If the proposals were to be accepted, it would be right to do so at once in view of the need to print and distribute the ballot papers, and to ensure that the Referendum Bill could be enacted in time for polling day to be on 5 June.

On the other hand, it was strongly urged that the circumstances of the referendum did not justify any change in voting arrangements for British people overseas. There were many doing useful jobs abroad who would have made arrangements to vote by proxy; there were also people in this country who, for one reason or another, raised problems affecting their entitlement to vote. It would be impracticable to make arrangements which would be wholly fair and free from challenge; and the scheme worked out by officials was likely to create more anomalies and other difficulties than it would remove. If it were adopted, there
would be a serious risk of a damaging precedent in relation to a future Speaker's Conference. In general, it would be unsound to introduce any departure for those overseas from the well-tried voting system of General Elections.

THE PRIME MINISTER, summing up the discussion, said that a majority of the Cabinet took the view that the electoral register (apart from the addition of peers) and the arrangements for absent voting in the referendum (apart from the special arrangements to be made for Servicemen) should be the same as for a General Election. The Cabinet accordingly reaffirmed their earlier decision to reject proposals for postal votes for those on holiday and others away from home and also came down against the proposal in the Lord President of the Council's paper to extend the register to include certain British subjects overseas. The risk of a Government defeat, and of a delay to the referendum, were recognised; and the Lord President of the Council and the Parliamentary Secretary, Treasury, should do their utmost to ensure that amendments to the Referendum Bill to this effect were defeated in the following week. To this end the Government's case as regards British people living overseas should be put to a meeting of the Parliamentary Labour Party on Monday evening, 21 April. The Lord President of the Council should however have a technically sound amendment prepared so that, if the Government were defeated on this issue on a defective amendment, they could arrange to substitute their own version in the Bill at a later stage.

The Cabinet -

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

Cabinet Office
17 April 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 22 APRIL 1975
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

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 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 Robert Mellish MP
Parliamentary Secretary, Treasury

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 Fred Peart 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 Samuel Silkin QC MP
Attorney General

SECRETARIAT

Sir John Hunt
Mr J A Hamilton
Mr R G S Johnston

SUBJECT

BRITISH LEYLAND MOTOR CORPORATION
The Cabinet considered the future of the British Leyland Motor Corporation. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

22 April 1975
The Cabinet considered a memorandum by the Chancellor of the Exchequer (C(75) 50) on the future of the British Leyland Motor Corporation (BL); a memorandum by the Attorney General on the legal aspects (C(75) 51); and a note by the Foreign and Commonwealth Secretary (C(75) 52) on the arrangements for informing the Commission of the European Economic Community.

THE PRIME MINISTER said that when BL had approached the Government for financial assistance in December 1974 it had been agreed that a high level team led by Sir Don Ryder, Industrial Adviser to the Government, should be set up to make recommendations on the future of BL, and a group of the Ministers immediately concerned had been formed under the chairmanship of the Chancellor of the Exchequer to oversee this task. The Ryder Report had been received on 27 March. It was a long and detailed study by experts; it raised many wide-ranging issues as well as detailed points of procedure. There had been speculation - for the most part inaccurate - about the nature and content of the report and it was important to make an early announcement. In the meantime it was of the utmost importance that the strictest security should be preserved about the Cabinet's discussion and the decisions eventually reached.

THE CHANCELLOR OF THE EXCHEQUER said that the group under his chairmanship comprised the Secretaries of State for Employment, Industry and Trade and the Attorney General; they had discussed the report with Sir Don Ryder in considerable detail. The recommendations in his paper represented the unanimous views of the Ministerial Group.

The Ryder Report was a highly professional piece of work carried out by a distinguished team. The Ministerial Group had broadly accepted the conclusions of the report and had recommended that it should be accepted as a basis for future Government policy towards
BL: nevertheless Ministers had recognised that there were major risks involved. First, the assessment of the firm's performance depended critically upon its market penetration. The Ryder team had assumed that the BL share of the home market would remain constant but a 25 per cent improvement in BL's sales in Western Europe would take place over the next seven years. This had to be achieved in the face of very severe competition. Secondly, the scale of investment over the years 1975 to 1982 was immense; BL would be expected to spend annual amounts that were between nine and ten times more than in any previous year. The physical task of absorbing investment on this scale was daunting. However, a major reason for BL's poor performance in the past was outdated equipment, and the only chance of it attaining its objectives lay in major new investment. Thirdly, the financial needs of BL over the years 1975 to 1982 were estimated at £2,800 million; the Ryder team believed that half of this requirement could be generated internally, but it had to be recognised that the estimates of profit were highly uncertain and the Government might have to find much more than £1,400 million. Fourthly, the productivity record of BL had been appalling. Much of this could be attributed to bad management at the top, and the Ryder team had gone out of their way to emphasise the high quality of middle management. Nevertheless, if overmanning were to be reduced and improved co-operation by the workers brought about, a major effort would be needed on the part of the new management to change the views and attitude of the workforce.

There were in addition questions affecting the economy of the country as a whole: an investment of £2,800 million over the next seven years implied a rate of expenditure equivalent to 5 per cent of total expenditure in manufacturing industry: there was no certainty that the motor industry was the best place to invest these sums: the return on this investment would be poor, even in the view of the Ryder team. These wider aspects had been considered by a group of senior officials under the Permanent Secretary to the Treasury.

Although acceptance of the Ryder recommendations involved a significant risk, the Ministerial Group had seen no practical alternative to this course. To abandon BL would place in jeopardy the jobs of 800,000 people directly or indirectly employed by BL; the collapse of BL would also have severe repercussions on exports and imports of cars. But the Government's commitment to BL would have to be carefully formulated: on the one hand it would have to carry conviction with overseas customers and ensure the effective co-operation of the management and workforce in keeping the firm going. On the other hand the initial financial commitment must be clearly limited and there must be checkpoints at which to review the plans and make major adjustments if these proved
necessary over the next seven years. Annexed to his paper was a draft statement which the Secretary of State for Industry might make on Thursday 24 April when it was envisaged the report would be published. This sought to preserve the delicate balance and to emphasise that the Government were not prepared to finance BL at any cost, particularly in relation to wage demands.

Against this general background, the group of Ministers had made a number of specific recommendations. First, that the Government should accept the Ryder Report as the basis for future policy towards BL. Secondly, that they should announce their intention to take a major shareholding in the company; should agree to underwrite an equity subscription of £200 million and should offer to buy out the existing shareholders on the terms recommended in the Ryder Report. Thirdly, the Government should stand ready to provide £500 million of additional capital up to 1978, in the form of either long-term loan or additional equity. Fourthly, no commitment should be made at the present time for the provision of finance for the period after 1978. The plan was that the Secretary of State for Industry should see the Board of BL on the following day, with the prime purpose of securing their co-operation. Later that day the Trades Union Congress and representatives of the Confederation of Shipbuilding and Engineering Unions should also be seen. On 24 April the Secretary of State for Industry would make his statement in Parliament and simultaneously publish an edited version of the Ryder Report, from which commercially sensitive information and anything potentially libellous about the existing management would have been deleted. He envisaged that there would be a debate early in May on an Affirmative Resolution to give a further guarantee of £50 million to enable BL to increase their bank borrowing as an interim measure while the long-term financial arrangements were determined. The need for this further interim help would be a factor in securing the Board’s early compliance. On the legislative aspects, there would be advantage in seeking to proceed by agreement; any compulsion would require a hybrid Bill, and the immediate ambit of enabling legislation could be limited. The funds required in 1976 and beyond might possibly come from the allotment made to the National Enterprise Board (NEB) which could, if this were agreed, be increased from the present £1,000 million to £1,200 million.

THE SECRETARY OF STATE FOR INDUSTRY said that he endorsed the Chancellor of the Exchequer’s conclusions. He also supported the Chancellor’s reservations about the risks which the acceptance of the Ryder strategy brought in its train. It would be essential to monitor carefully the achievements of the new company in relation to their targets, and to worker co-operation. The Government
should emphasise their firm intention to acquire the majority shareholding in the company. It would otherwise be impossible to defend a decision to invest £1,400 million of public money in a company with an equity value of less than £60 million. This was also presentationally necessary in relation to the European Economic Community, since they would require confirmation that we were increasing public ownership and not subsidising private industry. If the Ryder scheme to achieve a controlling interest for the Government were unsuccessful, the long-term objective could still be met by making the £500 million additional capital in the form of equity or convertible loan.

THE SECRETARY OF STATE FOR TRADE said that there were overwhelming reasons for keeping BL going. If the company failed, there would be a great influx of car imports. BL had great export opportunities if they chose the right strategy. He questioned however the wisdom of placing too much emphasis on the European market. There were many outstanding markets for BL's products, particularly trucks and buses, outside Europe. The strategy however would be for the new management to devise in consultation with the NEB.

THE ATTORNEY GENERAL said that the Ryder Report envisaged the equity base of BL being enlarged by a rights issue of £200 million, which the Government would underwrite. The Government would also undertake to buy out the existing shareholders at 10p a share - the same price as the rights issue. The Ryder team believed that relatively few shareholders would take up the rights issue, and so the Government would become a major shareholder. Existing legislation did not contain powers to give effect to these proposals, and a short enabling Bill, of the type used to bring Rolls-Royce into public ownership, would be needed. This course however depended heavily upon the willingness of the BL Board to accept the scheme and to recommend it to shareholders. Even then the Companies Act required the scheme to be endorsed by a majority in number of the shareholders and creditors present at a meeting, representing three-quarters of the value of each class of members and creditors affected by the scheme. After this, the scheme had to be submitted to the courts, and it would be for a judge to decide whether the scheme was acceptable, and to hear objections. The case might even go to appeal. If the Cabinet were unwilling to rely so heavily upon the reaction of the Board of BL, and in particular on wholehearted support from Lord Stokes, they might see advantage in introducing a Bill which would take over the courts' functions under the Companies Act and give the reconstruction scheme statutory backing. This would require a hybrid Bill, which, although less controversial than full scale nationalisation, would still not be enacted until the next Session of
Parliament. If the BL Board were prepared to support the Ryder scheme and recommend it to the shareholders, he advised following the normal route laid down by the Companies Act, with an enabling Bill. If however the Board were opposed, there seemed no alternative to a hybrid Bill, which would inevitably lengthen the timetable.

In discussion, it was argued that the Cabinet should not be expected, without studying the Ryder Report itself, to endorse without further consideration recommendations which pre-empted resources on such a massive scale and which had profound implications for public sector borrowing. Ministers had been required to make major cuts in their spending programmes in order to reduce public expenditure, but they were now being asked to take the Ryder Report on trust and to back with £1,400 million of public money a company with a nominal value of about £60 million. Even on the assumptions in the report, there would be no adequate return on this money for seven years. The effect on overseas confidence might be a factor in supporting BL, but overseas confidence would also be affected by a large increase in public sector borrowing. It was unrealistic to suppose that the Government could limit their commitment to the initial injection of funds. The co-operation of the BL Board was being assumed, but the Board had responsibilities to their shareholders. An offer of 10p a share, whether to sell out to the Government or to take up a new rights issue was ingenious, but it ignored the fact that the rights issue would be in a company controlled by the Government and not operated on commercial lines. The shareholder’s interest, for example, might best be served by shutting down plants with bad prospects and concentrating on the specialist products which sold well. It was specious to say that the BL shares were worthless; in many cases, the shareholders had paid 45p or more for them, and there were many small shareholders, including share clubs formed amongst BL employees, who would look to the BL Board for a lead on where their interest lay.

Against this, it was argued strongly that the team led by Sir Don Ryder was extremely well qualified to reach the best judgment on BL's future. Further delay and uncertainty would damage that future, not least because of continuing and misleading leaks in the Press. There was wide agreement that although there were grave risks involved there was no real alternative to accepting the Ryder Report, but the Government would have to monitor and control the performance of management and workers to ensure that the firm did not slip back into its old ways with frequent industrial disputes and overmanning.
In further discussion, the following main points were made -

**General**

a. The scheme proposed gave shareholders a fair choice: if they believed their shares were under-valued, they could stay in and, if they wished, take up the rights issue; otherwise they could accept the Government's offer to buy their shares. Although the Ryder team did not recommend Government control as such, they believed that many shareholders would sell out to the Government and that a sufficient number would not take up the rights issue so that the Government would emerge as the majority shareholder.

b. The need to reduce overmanning was recognised, but it was important that proposals to achieve this should have full regard to the claims of the assisted areas, particularly in Scotland and Wales. The Government, as the majority shareholder, could influence the choice of locations for new plant or the expansion or contraction of existing plants.

c. The draft statement proposed for the Secretary of State for Industry to make in the House of Commons required substantial alteration. Not only should it include a suitable acknowledgment to the work of the Ryder team, but it would be appropriate to mention the skills Lord Stokes had shown as a salesman for BL products and a spokesman for the company abroad. The statement should also be more specific about the conditions the Government were attaching to providing financial help, and about the methods open to them for ensuring compliance. It should be drafted in more political terms, to pose the stark alternative to support which would mean receivership for BL and put nearly one million jobs in jeopardy. The obligations of the workers should be stated in tough and unequivocal terms: any comparison with nationalised industries should be deleted.

d. Improved industrial relations at BL were a key to success: it was worth considering whether a special team to resolve disputes, on the lines adopted in the motor industry during the previous Labour Administration might be set up. The team's activity need not be confined to BL, but it could serve for the whole of the industry.
Legislation

e. Although it might be necessary, as a contingency measure, to prepare a hybrid Bill, the first choice should be to follow the normal procedure under the Companies Act, and to take powers in a short enabling Bill to allow the Government to purchase the existing shares by agreement and to underwrite the rights issue. If this failed, through the intransigence of the Board or the shareholders, it might then be better to go for outright nationalisation using a hybrid Bill, but it was not necessary to make this decision at the present time.

The European Economic Community

f. It would be necessary to consult the Commission of the European Economic Community (EEC); there were no objections to the course set out in C(75) 52 being followed, but it would be wrong to give the Commission a copy of the edited version of the report, which contained the price at which the Government would offer to buy shares and other sensitive information, until the Cabinet had received copies, which would be on the following day.

THE PRIME MINISTER, summing up the discussion, said that although the Cabinet recognised the doubts and uncertainties involved in accepting a report which forecast seven years ahead, and although strong arguments had been advanced for delaying a decision, the Cabinet agreed that the conclusions of the Ryder Report set out in paragraph 2 of C(75) 50 should form the basis of future policy towards BL and endorsed the other recommendations in that paper. Any delay would create an unacceptable risk of a leak; it was particularly important that their discussion and the conclusions reached should remain secret and they should not be passed on to Ministers not in the Cabinet. The Chancellor of the Exchequer should investigate the possibility of suspending dealings in BL shares forthwith, or at least before the report was given to the BL Board. There would be a major scandal if any leak led to share prices increasing due to prior knowledge of the proposals the Government had now agreed. Subject to finding a way of avoiding this, the Cabinet agreed that the Secretary of State for Industry should see the Board of British Leyland on the following day and should seek to secure their co-operation in the implementation of the Ryder scheme. The Cabinet saw presentational advantages in Lord Stokes remaining in an honorary position in the restructured company. The Foreign and Commonwealth Secretary should arrange for the Commission of the EEC to be informed forthwith of the Government's intentions, but they should not be given a copy of the
report until the following day, when the Secretary of State for Industry should arrange to circulate advance copies to the Cabinet. The Secretary of State for Industry should also amend the draft statement in the light of the points made in discussion, and clear it with the Chancellor of the Exchequer and himself. The statement should be made on 24 April. The Chancellor of the Exchequer should arrange for the Ministerial Group to give further consideration to the legislation required if the BL Board refused to recommend the Ryder proposals to the shareholders.

The Cabinet -

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

2. Endorsed the conclusions of the Ryder Report set out in paragraph 2 of C(75) 50 as a basis for future policy towards BL and also endorsed the other recommendations in that paper.

3. Invited the Chancellor of the Exchequer to investigate the question of suspending share dealings in British Leyland.

4. Invited the Secretary of State for Industry -
   i. to see, on the following day, the Chairman and the Managing Director and subsequently the whole Board of British Leyland to explain the Government's decision and to seek their co-operation in implementing their proposals; and subsequently to see representatives of the Trades Union Congress and of the Confederation of Shipbuilding and Engineering Unions;

   ii. to circulate to the Cabinet an advance copy of the edited version of the Ryder Report;

   iii. to amend the draft statement in the light of the discussion and to clear it with the Prime Minister, and the Chancellor of the Exchequer;

   iv. to arrange, in consultation with the Lord President of the Council, for a debate, early in May, on an Affirmative Resolution to authorise further guarantees for bank borrowing by British Leyland.
5. Invited the Foreign and Commonwealth Secretary to arrange for the Commission of the European Economic Community to be informed of the Government's intentions as indicated in the summing up.

6. Invited the Chancellor of the Exchequer to arrange for the Ministerial Group on British Leyland to give further consideration to the form of legislation required if the British Leyland Board refused to recommend the Ryder proposals to their shareholders.

Cabinet Office

22 April 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 24 APRIL 1975
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 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 Fred Peart MP
Minister of Agriculture, Fisheries and Food

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

The Cabinet were informed that the Prime Minister and the Foreign and Commonwealth Secretary would be leaving London on 27 April to attend the Commonwealth Heads of Government Meeting in Jamaica and would then visit Washington for discussions with President Ford and Dr Kissinger; they would therefore be out of the country for the next two weeks. Meetings of the Cabinet would be held if necessary under the chairmanship of the Lord President of the Council, but at present it seemed unlikely that a meeting would be required during the week beginning 28 April.

2. THE LORD PRESIDENT OF THE COUNCIL said that on the previous day the House of Commons had carried on a free vote, by a majority of over 100, an amendment to the Referendum Bill, the effect of which would be to ensure a declaration of the results by counties in England and Wales, regions in Scotland and for Northern Ireland as a whole. He had made it clear before the vote that the amendment still left open the question whether the votes should be counted at Earls Court or in the counties and regions.

The Opposition had now put down an amendment for the Report Stage of the Bill, later that day, the effect of which would be to ensure that the votes were counted in the counties and regions. He recognised the efficient planning work which the Home Office had done, and he believed that there were marginal advantages in favour of a count at Earls Court, if only because a recount, should this be necessary, would be much easier to carry out there than in 60 counties and regions. But he and the Parliamentary Secretary, Treasury, both thought that the Government were likely to be defeated if they tried to resist the amendment. He had also informally consulted the county authorities who had raised no difficulty about counting arrangements. He accordingly proposed that he should announce in the House that afternoon that the Government accepted the principle of the Opposition amendment and that, if it were withdrawn (because it was technically defective), they would move an appropriate Government amendment to the same effect in the House of Lords.
Discussion showed general agreement for this proposal. The following points were made:

a. The effect of accepting the proposal would be that results for individual counties and regions would have to be made known or declared as soon as they became available. It was likely that the early results would include those of sparsely populated Welsh counties and some heavily populated English counties and that there should not be too serious a risk of creating a misleading impression of the likely United Kingdom result. It would probably be best for the counting of the votes to begin on the day after the referendum; the danger of any adverse effect on sterling would be minimised if as was likely the first results were not known until at the earliest late on Friday 6 June.

b. Votes in the Northern Ireland Border Poll had been counted at Belfast and the same would be done with the votes for the Convention Elections there on 1 May. There should therefore be no great difficulty about counting the Northern Ireland referendum votes in Belfast as well.

c. It was likely that Earls Court would be used to count the votes in Greater London as well as the Service votes.

d. Although there might be some advantage in dividing Greater London into smaller units for the purpose both of counting the votes and declaring the results, it would be unwise to make this change at this stage, particularly in view of the implications for districts outside London.

e. A recount would probably be unavoidable if the result for the United Kingdom was within a bracket of 2 per cent either way. Further consideration should be given to the circumstances in which the National Returning Officer might have to institute a recount, and to the best arrangements to be made in that event.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the Lord President's proposal. This decision would however underline the importance of emphasising publicly the national character of the referendum result. The Home Secretary, in consultation with the Lord President, should discuss with Sir Philip Allen the practical implications of a recount and seek his advice on any other technical questions that might arise. On a separate point the Independent Television News had extended to a number of Cabinet Ministers an invitation to participate in a
major programme when the referendum result was announced; this could tend to promote the kind of confrontation it would be best to avoid, and Ministers who received invitations should let him know before committing themselves to take part.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. THE FOREIGN AND COMMONWEALTH SECRETARY said that there was no sign of a ceasefire and an early attack on Saigon must be regarded as likely. He had therefore instructed the Ambassador to leave with his staff and with any members of the British community who wished to go. This evacuation was taking place that day. Most other embassies were also leaving. He would wish to reopen the Embassy as soon as possible and he had informed the Government of North Vietnam that he regarded the closure as temporary. The Ambassador would, for the time being, stay in Singapore.

The Cabinet -

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

Cabinet Office

24 April 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 15 MAY 1975
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 Merlyn Rees MP
Secretary of State for Northern Ireland

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 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 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 3-5)

The Rt Hon Roy Hattersley MP
Minister of State for Foreign and Commonwealth Affairs (Items 3-5)

SECRETARIAT

Sir John Hunt
Mr H F T Smith (Items 1, 2, and 5)
Mr P Benner (Items 1-3)
Mr J A Hamilton (Item 4)
Mr J D Bryars (Items 3 and 5)
Mr R G S Johnston (Item 4)

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

It was reported that good progress was being made with the legislative programme for the current Session, but only at the cost of requiring the House of Commons to sit for unprecedently long hours. In view of the Government’s very small overall majority, this was imposing an extremely heavy burden on Government supporters. Their average age was significantly higher than that of Opposition Members; and there was a number who were in bad health and should not continue to be exposed to this degree of pressure. The disruption of Members’ domestic life also could not be ignored. The need to secure some improvement in the present state of affairs should be kept clearly in mind when, after the Recess, the Cabinet considered the content of the next Session’s legislative programme and the handling of the outstanding part of the programme for the current Session.

2. The Cabinet discussed problems arising from the application of the Guidelines on the Procedure for Ministers during the period before the EEC referendum circulated by the Prime Minister on 3 April (C(F)(75) 1).

It was reported that some practical difficulties had arisen from that guideline which stated that a Minister should not allow himself to be put into a situation in which he appeared to be in direct confrontation, on the same platform or programme, with another Minister who took a different view on the question of membership of the European Economic Community (EEC). In particular, there was a problem in connection with a programme on EEC membership which Independent Television were intending to present on the Tuesday before polling day. It would take the form of a two-hour debate between supporters and opponents of EEC membership; and it would be very unsatisfactory if in a major programme of this kind the effect of the guideline was that, as at present seemed likely, the case for continued membership was presented entirely by members of the Opposition because the opposing view was being expressed by dissenting members of the Cabinet. There was therefore a case for relaxing this particular guideline during the final stages of the campaign, even though it would remain desirable to avoid personal controversy between Ministers.
In discussion, it was argued that the guideline about avoidance of confrontation had caused problems to opponents as well as to supporters of EEC membership. For example, a problem had come to light in connection with a programme now in preparation which had been built up from a series of separate interviews given by supporters and opponents of EEC membership. The interviews had been edited and juxtaposed, and a commentary added at the end. The view had been taken that this constituted "confrontation" - despite the fact that the interviews had taken place separately and the programme constructed by subsequent editing - and some of the Ministers had been asked to withdraw. As a result, the programme would cease to offer a balanced presentation of the arguments.

In further discussion, support was expressed for the view that, even though some Ministers had already planned their programme of public appearances on the basis of the guidelines as they stood, there was a case for modifying this particular guideline during the final stages of the campaign. This course would arguably involve some dangers; but Ministers should be expected to observe the normal rules of good taste and restraint, and it would also be desirable for the period of the relaxation to be as short as was consistent with securing its objective.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that, in the important programmes likely to be appearing on television and radio during the final stages of the referendum campaign, it would be undesirable for the guidelines to result in the case in favour of continued membership of the EEC being put mainly by members of the Opposition Parties because of the need to avoid confrontation. Accordingly, the guideline at paragraph 2(ii) of C(P)(75)1 dealing with the avoidance of confrontation should cease to apply in respect of radio and television programmes for the period from Sunday 1 June until polling day; but Ministers should continue to be guided by normal considerations of restraint and good taste, bearing in mind the importance of doing nothing which would hinder the restoration of normal Cabinet solidarity immediately the referendum was over. Ministers should continue to inform his office of any invitations they received to appear on radio or television during that period. The guideline on direct confrontation should in any event and with immediate effect not be regarded as applying to radio and television programmes which were built up by editing interviews given separately by individuals; but Ministers should bear in mind the possibility that interviews they gave might, as a result of editing by the broadcasting authorities, be used in ways which they did not envisage at the time of the interview. It was important that the views of the Government on continued EEC membership should be clearly presented, and he himself would seek to do this in the public speeches and radio and television broadcasts he would be making during the period before the referendum.
The Cabinet -

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

3. THE PRIME MINISTER said that the United States Congress, against the wishes of the American Administration, had decided to suspend the supply of arms to Turkey. The ban was not likely to be lifted in the near future and, unless other ways could be found of helping Turkey, the efficiency of her armed forces would suffer, her ability to contribute to the defence of the North Atlantic Treaty Organisation's (NATO) South Eastern flank, which had already been weakened by the withdrawal of Greece from military participation in the Alliance, would be reduced, and there might well be increasing domestic pressures on the Turkish Government to withdraw from NATO. The Turks had appealed to other members of the Alliance to sell her arms and spares. The American Administration wanted us to help and we would be expected to declare our position in NATO on 19 May. The Defence and Oversea Policy Committee had discussed the matter on the previous day and had come down strongly in support of the Foreign and Commonwealth Secretary's recommendation that we should respond favourably to the Turks' request. But it had also been agreed that, because of the difficult political problem which the request created, the Cabinet should be invited to confirm that decision.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Turkish request to her NATO allies raised difficult issues but he had no doubt that it was right for us to make a positive response. We had already decided to allow arms sales to Greece and a refusal to be even-handed would increase rather than reduce Turkish intransigence on the Cyprus issue. He had hoped to form a common policy with the Federal German and French Governments aimed at ensuring that a resumption of military supplies to Turkey should be accompanied by Turkish concessions over Cyprus. But the Germans had already agreed to an unconditional resumption of supplies and the French intended to approach any Turkish request from a commercial standpoint. The attitudes of the two Governments would place us in an isolated position if we refused to supply. But in telling the Turks that we agreed in principle to sell arms he would also let them know that we hoped they would respond by changing their attitude on some aspects of the Cyprus problem, including the treatment of United Kingdom nationals resident in the Turkish occupied zone. In addition to their immediate need of spares and arms to fill the gap left by the American ban, the Turks were interested in buying Jaguar aircraft. We should need French
agreement to this. Delivery of this aircraft would not in any case be possible before the end of 1976.

In discussion it was argued that major issues of principle required us to refuse to meet the Turkish request. Whatever the French and German attitude might be, our Treaty obligations in Cyprus placed us in a special position. The Turks had been guilty of aggression. On the other hand it was noted that our efforts to move Turkish policy on Cyprus towards a position which offered the prospect of a settlement were already achieving some success and were welcome to President Makarios. This ground would be lost by an outright refusal to sell arms. Our overriding concern, however, must be the NATO interest: the effectiveness of the Turkish armed forces in their NATO role would be reduced and the pressures inside Turkey for withdrawal from the Alliance could be greatly strengthened by such a refusal.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the course of action proposed by the Foreign and Commonwealth Secretary and agreed to by the Defence and Oversea Policy Committee. The Turks should be told that in principle we were prepared to supply them with arms and spares and the British Aircraft Corporation should be informed that negotiations for the sale of Jaguar aircraft could go ahead. But the sale of individual items of equipment and spares and of Jaguar aircraft should be kept under review by the Defence and Oversea Policy Committee which would take into account the relevance of each request to Turkey's ability to discharge her obligations towards NATO defence.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
4. The Cabinet considered a memorandum by the Secretary of State for Trade (C(75) 59) on employee participation on company boards.

THE SECRETARY OF STATE FOR TRADE said that the Ministerial Committee on Industrial Development (IDV) at their meeting on 22 April had decided that an independent Committee of Inquiry should be set up to advise on employee participation on company boards, and he had been asked to take the lead in drafting an announcement. He had circulated a draft announcement, including the proposed terms of reference for the Inquiry to members of the Cabinet on 12 May; these had already been agreed by the colleagues concerned and he had arranged to make a statement in the House on 13 May. The terms of reference had been made known to Mr Murray and Mr Jack Jones of the Trades Union Congress (TUC) at a meeting with the Prime Minister on 12 May, at which he and the Secretary of State for Employment had been present. On the following day Mr Murray had written to the Prime Minister expressing strong reservations about the proposal and suggesting alternative terms of reference. He had therefore, at the last moment, after a copy of the statement had been given to the Opposition been forced to defer the statement.

The TUC wished to exclude reference to study of schemes for industrial democracy in other countries, in particular in the European Economic Community; and any analysis of different schemes of industrial democracy. They wanted the terms of reference to provide that the extension of industrial democracy must be based on the trades union organisation. The revised terms of reference in C(75) 59 were designed to meet the first two points; but he felt unable to accept the third. The TUC would prefer a consultative document based on their own proposals: if an inquiry was inevitable, the TUC wished it to be confined to study of how to implement their own proposals. The Government ought not however to accept this view. An inquiry must have regard to the views not only of the TUC but also of the Confederation of British Industry (CBI) and of management. It must be based on seeking common ground, and terms of reference which were narrowly drawn to pre-judge the issue would be self-defeating; a genuine discussion was essential. It had to be recognised that the TUC were not unanimous on what action to take; the views expressed by Mr Murray and Mr Jack Jones did not necessarily represent the attitude of the major unions, and the TUC's debate at the 1974 Congress had been inconclusive. The CBI had accepted the principle of an inquiry, although they had not been given the terms of reference. Even the revised terms of reference were heavily slanted to the TUC view, and any further concession to the TUC would destroy the prospect of a consensus.
He believed however that the revised terms of reference in C(75) 59 would meet the case. Further delay would prove embarrassing to the Government not only because of the abrupt cancellation of the arrangements for a statement on 13 May, but because of the existence of a Private Members Bill on industrial democracy, introduced by Mr Radice. This Bill had been given an unopposed Second Reading on 7 March, and was about to enter its Committee Stage. The Bill had been prepared in consultation with the TUC; it went much further than the Government's intentions, and only by an undertaking urgently to set up a Committee of Inquiry could the Government hope to persuade Mr Radice to withdraw his Bill. There were no prospects of amending it suitably in the Committee Stage, and the only hope lay in blocking it at the Report Stage. Further consultation with the TUC was likely to lead to dispute and confrontation, rather than the resolution of differences. He therefore sought agreement from the Cabinet to make a statement later that day containing the revised terms of reference for the Inquiry.

In discussion, it was argued that the need for an Inquiry had already been accepted by IDV. It was essential to have an assessment of the implications of worker participation for company law in relation to companies and for the statutes in relation to public boards. The Inquiry would have many complex issues to consider, and if there were to be any prospect of legislation in 1976-77 its report must be available within 12 months. Delay at this stage could be critical. The Secretary of State for Trade should therefore make a statement that day on the lines already circulated, with the terms of reference revised as in C(75) 59. If this proved impracticable, at least the issues should be settled very urgently, so that the statement could be made early in the following week. It was suggested that, if urgency was of paramount importance, a statement of principle might be made, leaving the terms of reference for the Inquiry to be announced later, together with the membership. Against this, it was argued that it was important to settle the terms of reference before any public announcement was made.

On the other hand it was strongly argued that industrial democracy was a major issue of policy on which the Cabinet needed further debate. The implications had not been fully thought out, and the view attributed to the TUC by two or three of its senior officials was not necessarily representative of the body of opinion amongst the unions. But to press ahead without full consultation with the TUC and consideration of all the issues would be to stumble into a minefield. The TUC's support was almost an essential prerequisite. The Cabinet should therefore consider whether there need be a Committee of Inquiry - a consultative document, and further practical experiments might be preferable. If there were an Inquiry, it was by no means clear that it should be confined to board representation;
negotiation and representation at shop floor level also raised difficult issues. There was also the question whether representation should be through the trades unions, or by some form of direct election open to all workers in an enterprise. The Labour Party Manifesto for each of the 1974 elections strongly implied industrial democracy through the medium of the trades unions, even if this left unsettled whether national officers or shop stewards were intended. There was a strong preference for using the trades union's national organisation as a vehicle, but it was recognised that a pragmatic approach was needed. Examples were quoted to show that representation was best selected from those who had power and influence with the workers in a particular enterprise; these might often be the shop stewards, but the desirability of freely electing representatives should not be overlooked.

THE PRIME MINISTER, summing up the discussion, said that the balance of opinion in the Cabinet was against the Secretary of State for Trade making a statement in the House of Commons that day. The discussion in IDV in April had been on the basis of anticipating the Committee Stage of the Radice Bill, but this opportunity had now gone and the Lord President and the Chief Whip could ensure that the Bill was prevented from getting its Third Reading on 11 July. The Cabinet had therefore more time in which to debate the issues. It would however be desirable to have formed a collective opinion, before the TUC/Labour Party Liaison Committee meeting in June, in particular, on whether there should be an Inquiry, what form it should take and its terms of reference. A group of Ministers should look at the whole question, taking into account not only the implications of employee representation on boards in the private sector but also the repercussions in the nationalised industries. The group should comprise the Lord Chancellor (in the chair), the Secretaries of State for the Environment, Employment, Energy, Prices and Consumer Protection, Industry and Trade, the Paymaster General, the Attorney General and the Minister of State, Northern Ireland Office. The Lord Chancellor should arrange for the group's preliminary views to be reported to the Cabinet before the meeting of the TUC/Labour Party Liaison Committee on 23 June. In the meantime, the Secretaries of State for Employment and for Trade should consider how Mr Radice might best be persuaded to withdraw his Bill on the basis of assurances of the Government's action.

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 Employment and the Secretary of State for Trade to consider how Mr Radice might be persuaded to withdraw his Bill.
3. Invited the Lord President of the Council and the Chief Whip, if the approach to Mr Radice failed, to ensure that the Industrial Democracy Bill did not receive a Third Reading.

4. Invited the Lord Chancellor to arrange for a group of Ministers to examine the question of industrial democracy on the lines indicated in the summing up, and to report their preliminary views to the Cabinet before the meeting of the Trades Union Congress/Labour Party Liaison Committee on 23 June.
The Cabinet had before them a memorandum by the Lord President of the Council (C(75) 54) and memoranda by the Secretary of State for Trade (C(75) 47 and 58) on the supply of spares and equipment to South Africa.

THE LORD PRESIDENT said that his memorandum explained the reasons why the Defence and Oversea Policy Committee (OPD) at their meeting on 21 March reaffirmed the conclusion reached by the Committee on 14 November 1974, that we should be prepared to continue the policy of supplying spare parts to South Africa, but that if the contractual position in any particular case was such as to show that an exception should or could properly be made to this general principle the Committee should consider it. They considered that a hardening of our policy, as proposed by the Secretary of State for Trade, could lead to substantial difficulties and endanger our interests over a wide area. South Africa might retaliate against our non-military exports. A decision to withhold spares necessary to maintain equipment already supplied would be noted by other countries and could damage our reputation world wide as a supplier of defence equipment. We were not under pressure from the African countries to tighten our restrictions on arms supplies to South Africa still further. The Committee had also decided on his own casting vote as chairman that an order for Decca Doppler air navigation radar should be allowed to go. In November the Committee had decided that applications for dual purpose equipment, that was to say equipment which could be used either for civil or for military purposes, which were destined for exclusively military use, should be considered individually. The arguments in favour of allowing the Decca equipment to be supplied were that it was required for air safety, that equipment of this kind had been exported previously to South Africa, and that to refuse export would seriously prejudice the company's future prospects in South Africa. A clear majority of the Committee had been in favour of allowing the export of 1,200 gas masks with canisters, destined for the South African Navy.

THE SECRETARY OF STATE FOR TRADE said that he wished to distinguish between "sharp" spares, clearly related to the offensive role of a weapon, the supply of which we should bring to an end without delay; and "non-sharp" spares where we could reasonably phase out supplies more gradually. Sharp spares included gunnery equipment and practice ammunition, bomb carriers and night vision equipment. It was inconsistent to adopt a policy of not sending arms to South Africa and to continue to send ammunition to the South African Navy. It was also inconsistent to continue indefinitely to supply non-sharp spares for weapons provided many years ago, thus enabling the life of these weapons to be prolonged, or even modifying them so that they were more up to date than weapons originally supplied. So far as non-sharp spares were concerned,
the contractual position should be examined in each case and, regard being given to the nature of the equipment and the period for which it had been in use, ways should be sought of phasing out the supply in an orderly manner without involving Government action to break existing contracts. He was opposed to the supply of the Decca equipment which was known to be for exclusively military use and which would improve the effectiveness of the South African Air Force. It would be impossible to justify the export of the gas masks destined for the South African Navy which were of a military specification and could be used for anti-riot situations; and although these were covered by an existing contract the export should be refused. In his judgment his proposals would not damage our relations with South Africa.

In discussion it was argued that the Secretary of State for Trade’s proposals represented a fundamental change of policy. Relations with South Africa would be adversely affected and this could well be to the disadvantage of developments in Rhodesia and Namibia. Retaliation by the South African Government might affect not only our civil trade but also the supply of uranium upon which our energy programme was heavily dependent. It was also argued that the existing policy on spares was designed to enable the equipment to serve its natural life and did not include the provision of spares for significantly changing the equipment and bringing it up to date. It was also noted that the Decca equipment was required for transport aircraft and could not be fitted into other forms of military aircraft. The order in question was part of a continuing programme of supply to transport aircraft of the South African Air Force which had begun in 1968. It was not correct to describe the gas masks as anti-riot equipment: they were not for riot control, being designed for protection against biological and chemical weapons; they were similar to equipment issued to the Royal Navy.

THE PRIME MINISTER, summing up the discussion, said that since the new policy on the supply of arms to South Africa had been adopted, the Secretaries of State for Trade and Defence had reached a wide measure of agreement in this complicated field. Our policy on arms and on other matters affecting Southern Africa had created a strongly favourable impression among the African countries. There had been no suggestion from African leaders at the recent Commonwealth Conference in Jamaica that our policy and practice on the supply of arms and equipment was unacceptable to them. It was the view of the Cabinet that we should continue the existing policy on the supply of spares as formulated by OPD on 14 November, and recently reaffirmed by the Committee. Applications for the export of spares would be examined individually: there would be a bias in favour of supplying them when the effect would be essentially to continue the natural life of equipment; and a bias against supply if they would have the effect of significantly modernising the equipment.
If the Secretaries of State for Trade and Defence were unable to agree on a particular item the matter would be considered by OPD; and only very exceptionally should individual items be brought to the Cabinet for decision. In view of the fact that Decca equipment of this type had been supplied since 1968 and could be used only in transport aircraft, the Cabinet agreed that the export should be allowed. Similarly, in view of the explanation given about the nature of the gas masks they, too, should be allowed to go. It would of course be necessary in the present developing situation in Southern Africa to keep our arms policy under review.

The Cabinet --

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

Cabinet Office

15 May 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 22 MAY 1975 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 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 (Items 1-3)

The Rt Hon Roy Jenkins MP Secretary of State for the Home Department (Items 3 and 4)

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

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 Harold Lever MP
Chancellor of the Duchy of Lancaster

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon Lord Shepherd
Lord Privy Seal

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Judith Hart MP
Minister of Overseas Development
(Items 2-4)

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Items 2 and 3)

Mr Eric Deakins MP
Parliamentary Under Secretary of State,
Department of Trade (Item 4)

SECRETARIAT

Sir John Hunt
Mr P Benner (Item 1)
Mr J A Hamilton (Items 2-4)
Mr E J G Smith (Item 1)
Mr J A Marshall (Items 2 and 3)
Mr J Peters (Item 4)

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1. The Cabinet were informed of the business to be taken in the House of Commons during the week following the Spring Recess. It was proposed to use Monday, 9 June for the Second Reading of the Statutory Corporations (Financial Provisions) Bill, rather than as a Supply Day. The latter would be preferred by the Opposition, who had indicated that they would welcome business on that day which would not involve divisions; moreover there would be advantage in securing an even spread of the numerous Supply Days which were outstanding. But the Second Reading debate of the Statutory Corporations (Financial Provisions) Bill would provide a suitable opportunity for a debate on steel, for which the Opposition had for some time been pressing and which the Lord President had undertaken that time would be found during the first week after the Recess; and on balance this seemed the preferable course.

THE LORD PRESIDENT OF THE COUNCIL said that it was proposed that there should on 12 June be a debate on a Motion bringing before the House the Reports from the Select Committee recommending Mr Stonehouse's expulsion unless he returned to this country and resumed his Parliamentary duties within a month. There was one minority school of thought in the House of Commons that, procedurally, it was not for a Select Committee to prescribe a period of grace and that, before their recommendation could be effective, the House would have to adopt a substantive motion providing for Mr Stonehouse's expulsion at the end of a month, beginning from the date of the resolution. The consequence of this would be that, unless a change were made in the Standing Order which prevented by-elections during recesses, Mr Stonehouse's constituency would remain unrepresented for many months. A second minority view was that, since Mr Stonehouse would almost certainly be arrested if he returned to this country and thus prevented from resuming his Parliamentary duties, it would be unjust to expel him for failing to do something which it was not within his power to do. Majority opinion in the House, however, supported the recommendations of the Select Committee and he proposed accordingly to put down a Motion for Mr Stonehouse's expulsion for debate on 12 June. If the Motion were adopted, a by-election could take place during the first week of July. But it could not be ignored that in the Attorney General's view the legal position was not wholly satisfactory, particularly because the Select Committee's Report in effect brought pressure to bear on Mr Stonehouse to leave Australia before his legal rights there had been exhausted. If he nevertheless wished to return voluntarily to this country, he would have to apply to the Australian courts for release from bail; such an application need not, but probably would, be granted. Again, if
the pending application to the Australian courts for his extradition to this country was successful when it was heard later in the month, Mr Stonehouse would under Australian law have to be retained in Australia for 15 days from the date when the extradition order was granted; and it was doubtful whether this requirement could be waived. Moreover, if he returned here voluntarily and was arrested on arrival, his ability to resume his Parliamentary duties would depend on whether or not he was allowed bail.

THE PRIME MINISTER, summing up the discussion, said that the Select Committee had made no assumption either way about Mr Stonehouse's guilt but was concerned solely with the question whether or not he should be regarded as having abandoned his Parliamentary duties. The Cabinet agreed that plans should be announced for a debate on 12 June but that no Motion should be put down until much nearer the time. The position should be reconsidered and the debate if necessary postponed if Mr Stonehouse returned to this country, as he had stated he intended to do in order to attend a meeting of his constituency party on 11 June, or if it were clear that he had made a genuine attempt to return and to resume his Parliamentary duties but had been prevented from doing so by legal processes in this country or in Australia.

The Cabinet -

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

THE PRIME MINISTER said that he would be readily available for official business through the Recess. No Cabinet meetings had so far been planned but arrangements could be made as necessary for the collective consideration of urgent business. The meeting of the Ministerial Steering Committee on Devolution which had been arranged for 3 June had however been deferred until 13 June. Arrangements would be made, either after the DS meeting on 13 June or more probably on 16 June, for a meeting of the Ministerial Committee on Industrial Development (IDV) to undertake a thorough review of the Industry Bill following completion of its Committee Stage and in preparation for the Report Stage. In the meantime the Official Committee should prepare an analysis of the position reached and clear as much ground as possible in preparation for the IDV meeting. Following the latter there would need to be urgent discussions with the Trades Union Congress and the Confederation of British Industry leading to Cabinet decisions on 19 June.
2. The Cabinet had before them a memorandum by the Prime Minister (C(75) 60) setting out proposals for the future consideration by Cabinet of public expenditure questions.

THE PRIME MINISTER reminded Cabinet that, at the meeting on 10 April, he had undertaken to consider the arrangements which should be made to enable the Cabinet in future to reach a collective view on its public expenditure strategy. Ministers had expressed concern about the economic judgment implied by any particular level of public expenditure, and about how the public expenditure system could be made responsive to the Government's own political strategy. He had considered the problem carefully, and had consulted closely with the Chancellor of the Exchequer. His proposals for improving the arrangements were set out in his paper. What he had tried above all to do was to ensure that, at a sufficiently early stage for its views to influence the content of the public expenditure survey report, Cabinet had adequate opportunity to consider the economic assessment upon which forward spending plans would have to be based, and the political and economic options open. The economic assessment would be presented by the Treasury, together with a commentary by the Central Policy Review Staff (CPRS); it would put before Cabinet the main elements of the Treasury's Medium Term Economic Assessment. This presentation would lead to a separate discussion in Cabinet at which decisions would be taken on the broad allocation of resources between public expenditure and private consumption. At a subsequent Cabinet meeting there would be a discussion of public expenditure priorities on the basis of a paper produced jointly by the CPRS and the Treasury in which the Policy Unit at 10 Downing Street would be involved. This would enable the Cabinet to discuss the political and economic options open to them and consider where their whole public expenditure policy was leading them in terms of the next General Election. In this way the public expenditure survey report, when it was prepared, should reflect the Government's own decisions more clearly than had been possible in the past. Even so, there would remain unresolved problems after the report had been completed, and he proposed that the Official Steering Committee on Economic Policy should consider the report, identify the main issues for Ministers, and set out the options which were open. In this way the final Cabinet discussion in the Autumn would be on material which took full account of the priorities Ministers had expressed earlier; and Ministers would be enabled to concentrate their attention on the major issues without getting involved in the more indigestible material in the report itself. This new procedure was bound to some extent to be experimental, and might need to be adjusted in the light of experience. His proposals related to a normal year, but since the 1975 Survey was unusually late in starting, he had set out in paragraph 12 of his paper a modified arrangement whereby some of the ideas could be
injected into this year's procedure. He hoped that Cabinet would endorse the proposals as meeting their desire to have an opportunity to discuss the economic background and the political implications of major issues of public expenditure at an early stage in the annual cycle so that officials could then be given political guidance before carrying out the Survey.

In discussion there was a general welcome for the Prime Minister's proposals, which were regarded as a major step forward. Two specific suggestions were made:

a. In the discussion of the Medium Term Assessment envisaged in paragraph 9 ii. of the paper, it should be possible, without putting the Budget into Commission, to include options on tax policy as one of the aspects to be covered.

b. Given the complexity of the subject, it would be helpful if, whenever public expenditure was to be discussed, the papers could be circulated 7 days, rather than 48 hours, in advance of the meeting.

THE PRIME MINISTER, summing up the discussion said that the Cabinet clearly welcomed the proposals he had put forward. It would now be for the Chancellor of the Exchequer and the CPRS to provide Cabinet with the material needed to implement those proposals. The Chancellor of the Exchequer would consider what could be done to meet the specific points raised in discussion.

The Cabinet:

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

2. Invited the Chancellor of the Exchequer and the Central Policy Review Staff to arrange for the proposals in C(75) 60 to be implemented.

3. The Cabinet's discussion and the conclusions reached are recorded separately.
4. The Cabinet had before them a memorandum by the Chancellor of the Duchy of Lancaster (C(75) 64) recording the conclusions of the groups of Ministers under his chairmanship which had considered a proposal by the Secretary of State for Industry to impose temporary restrictions on imports of textiles and clothing.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that his paper set out the arguments which had convinced the group of Ministers, in spite of their natural concern, to decide against the imposition of import restrictions. The root of the problem did not lie in an increase in textile imports - the degree of import penetration in 1975 was tending to fall compared to 1974 - but in a marked decrease in demand at home and abroad. It was essential not to add to the difficulties of developing countries; it was also most important not to undermine the Multi Fibre Arrangement which helped our industry by making it possible to spread the increasing imports from developing countries more fairly among the developed countries, including those in the European Economic Community. The developed countries too were suffering severely from the recession, and would certainly retaliate if we imposed discriminatory restrictions against them, as had been shown in the case of Turkey recently. The rest of the world expected the British Government to abide by international agreements and obligations, and its credit must not be damaged, or there was a risk of turning a temporary problem into one which was much bigger and lasted longer. However, the group of Ministers fully realised the difficulties of the British textile and clothing industry, and for this reason had tended to favour his suggestion that some other method should urgently be sought to provide selective help to those parts of the textile industry that were hardest hit.

In discussion there was general agreement that the difficulties of the textile and clothing industry demanded urgent attention, both on general grounds and from a political point of view: the industry faced the worst recession since the 1930's. The trade unions concerned were generally moderate and responsible, the industry had modernised and improved productivity, and it deserved special help to enable it to weather the current recession. A letter just received from the General Secretary of the Trades Union Congress argued strongly in support of this, and also requested the Government to give immediate consideration to the request from the British Textile Confederation for temporary restrictions to be imposed on imports across the board. So strong was the feeling among the Members of Parliament concerned that it was imperative for reference to be made to the problems of the industry during the economic debate later the same day. There were strong arguments against imposing restrictions on imports, but it was certainly worth seeing if more help might not be provided under the Industry Act, on the lines of the existing scheme under Section 8 to help the wool textile part of
the industry. However, it was important to remember that the object of such assistance was to regenerate British industry; this meant giving help in ways which would enable useful production to expand when the recession ended and not subsidising goods which no-one wished to buy.

THE PRIME MINISTER, summing up the discussion, said the Cabinet agreed that the condition of the textile and clothing industry was serious, and deserved special consideration. They accepted the strong arguments against imposing restrictions on imports on textiles and clothing, particularly those from the developing countries; but they wished urgent consideration to be given to the possibility of providing more help under the Industry Act, to assist the industry to ride out the recession and to be well-placed to take advantage of the coming up-turn in world trade. He proposed in his speech in the economic debate that afternoon to refer to the very thorough examination which Ministers had given to the problem, and to promise a statement on the following day. That statement should be now drafted by the Chancellor of the Duchy of Lancaster in consultation with the Chancellor of the Exchequer and the Secretary of State for Industry; it should explain the arguments for rejecting import controls, and promise an urgent investigation into other means of helping the industry under the provisions of the Industry Act. The Secretary of State for Industry, in consultation with the Chancellor of the Exchequer, should then examine urgently what selective schemes might be appropriate, with the object of making an announcement during the recess or shortly after.

The Cabinet -

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

2. Agreed that restrictions should not be imposed on textile and clothing imports, either across the board or on a selective basis, but that urgent examination should be given to the possibility of extending further selective help to the textile and clothing industry under the provisions of the Industry Act.

3. Invited the Chancellor of the Duchy of Lancaster, in consultation with the Chancellor of the Exchequer and the Secretary of State for Industry, to prepare a statement to be made by the Prime Minister the following day, on the lines indicated in the summing up.

4. Invited the Secretary of State for Industry, in consultation with the Chancellor of the Exchequer, urgently to examine the scope for further selective schemes to help the textile and clothing industry under the provisions of the Industry Act with the object of making an early announcement.

Cabinet Office
22 May 1975
The Cabinet had before them memoranda by the Chancellor of the Exchequer on public expenditure and economic strategy (C(75) 62), on the significance of the borrowing requirement (C(75) 61), and on the public expenditure survey 1975 (C(75) 63).

THE PRIME MINISTER emphasised that on this occasion there was no question of the Cabinet committing themselves to any particular magnitude or distribution of public expenditure cuts, nor was it desirable that at this stage they should seek to close any options. The purpose of the exercise was to consider a procedure designed to present Ministers at a later stage with a series of options on the basis of which it would then be possible to make political choices.

THE CHANCELLOR OF THE EXCHEQUER said that the new arrangements which had been agreed under the preceding item could not be fully adopted in the current year because of the constraints of the calendar. He agreed that the only decisions required at the present meeting were procedural ones. For this purpose the Cabinet would need to look at the total proportion of the national income which might be allocated to public expenditure; but the time for a decision on this, and for a discussion of public expenditure priorities, would be in July when more work had been done. Final decisions would not be appropriate until September when the Survey report would be available.

His proposal was that the Public Expenditure Survey should proceed on the basis that expenditure in 1978-79 might need to be reduced by at least £2,000 million at 1974 Survey prices below the projections in the Public Expenditure White Paper (Cmnd. 5879). However, in order to assemble sufficient options to enable the Cabinet to make shifts in the present pattern of priorities if they so wished, he proposed that officials should identify cuts totalling £3,000 million. In reaching his view that cuts totalling £2,000 million might be necessary he could not ignore the fact that between 1955 and 1975 the proportion of the gross domestic
product (GDP) taken by public expenditure had increased from 42 per cent to 58 per cent, most of the increase having taken place in the last 10 years. This had been reflected in the tax burden on ordinary people. In 1965 the income tax on the average earnings of a married man with two children took 5.6 per cent of his income, whereas today it took 18.9 per cent. In 1955 69 per cent of the working population paid income tax, whereas today 82 per cent paid it. Furthermore, it should be remembered that when the low paid entered the tax system, they did so at the rate of 35 per cent. If present public expenditure plans were left unchanged, it would mean that by 1980 income tax would have to be raised to 45p in the pound. Nor could this be avoided by imposing heavier taxes on the richest part of the population. Indeed even if all taxable income above £6,000 a year (just over twice average earnings) were confiscated, it would raise only £450 million on a once-for-all basis as compared with the current public sector deficit of £7,600 million. The public sector's present spending plans (including onlending) involved spending 119 pence for every 100 pence of revenue raised; and it was this fact which was reflected in the balance of payments deficit which last year amounted to 5 per cent of the national income.

The medium term economic forecasts were worse than previously for two reasons. The rate of growth of GDP, formerly put at 3 per cent per annum, was now expected to be rather less — perhaps only 2 1/2 per cent. Furthermore, the oil producers were spending their surpluses quicker than had been expected, which meant that the developed countries would have to pay in goods for their oil sooner than anticipated. The United Kingdom had therefore to close its balance of payments gap at a faster rate than had been planned. These two factors alone meant there were fewer resources available for public expenditure. In addition, it was now likely that North Sea oil would become available more slowly than had previously been hoped; and the fact that inflation in the United Kingdom was running at twice — and by later in the year might be running at three times — the rate elsewhere in the world, meant that Britain's ability to borrow overseas would be greatly reduced. This was the background to the draconian target for cuts which he now proposed. Of the £3,000 million to be identified, one half should be sought by considering the implications of stated percentage reductions in current and capital expenditure on goods and services, while the balance would need to be found from a range of other expenditures, including transfer payments.
In discussion it was argued that, while the decisions now sought were said to be only procedural in character, it was not unknown for such decisions later to acquire a more substantive nature. As regards the proportion of GDP taken by public expenditure it was relevant that 20 years ago the public sector in the United Kingdom took a lower proportion of GDP than in any other advanced country. The significance of the percentage increase could not therefore be judged without comparisons with the position in other countries today. Doubt was also cast on the suggestion that the country was living 5 per cent above its means - a reference to the scale of the balance of payments deficit - since a recent newspaper article had put the figure at nearer 2 per cent. Furthermore the cuts proposed were unsatisfactory in that they treated virtually all public expenditure as if it were uniform in its nature, drawing no distinction between expenditure involving the use of resources and expenditure on the acquisition of assets. If the need for a cut of £2-3,000 million were based on the argument that the level of tax would become too high, then the Cabinet should discuss the merits of high taxation and high public sector spending against a lower level of both. If on the other hand the argument were founded on the balance of payments position, the brief reference in the paper was not an adequate basis for forming a firm view. It was by no means proven that it was necessary to push up the level of spare capacity - which would be the consequence of the cuts proposed - to such an extent. The political implications were enormous since for the first time the Cabinet was discussing cuts in absolute terms, and not merely cuts in rates of expenditure growth. Indeed there must be serious doubt whether it would be possible to impose cuts of this kind on local authorities without new machinery for the purpose. One of the by-products of the cuts would be likely to be a disastrous effect on the prospects for the construction industry.

In further discussion it was argued that the whole diagnosis and strategy were wrong. The situation was much worse than had been suggested. Unemployment was rising sharply, and would probably be over one million by the end of the year. The country was on the edge of a deep slump, as was evidenced by falling investment intentions. It was by no means certain that the upturn in world trade would take place at the end of the year, and even if it did other countries - notably Germany, Japan and the United States - were better placed than Britain to take full advantage of it. Cuts of the magnitude proposed would lead to increased unemployment which would produce a loss of £1,200 million in tax revenue, and an additional cost of £1,000 million in social security payments, so that the net effect would be to produce savings of only £800 million. If public expenditure priorities had to be replanned, this should be done in a full employment context. The reductions
proposed would simply cut back the real resources available. Moreover by embracing a macro-economic strategy of the kind proposed, micro-economic strategy would be put in a straitjacket. The strategy implied high unemployment, but jobs were productive capacity, and this would represent one further step in the ratcheting down of productive capacity in the United Kingdom. There was a wholly feasible alternative policy based on import controls - which the Government would be compelled to bring in within a year in any case - combined with increased investment in the context of fuller employment.

On the other hand it was strongly argued that a policy based on import controls totally failed to deal with inflation which was the central and crucial element in the current economic situation. Inflation was the problem which above all needed to be tackled, and it was vital that Ministers should turn to consideration of it after the recess. The current rate of inflation was bankrupting a wide range of institutions and unless checked could threaten civilised government itself. If the Cabinet were unwilling to face up to the swingeing public expenditure cuts proposed, they must be prepared to consider a much tougher pay policy than they had followed hitherto, even if this meant considering voluntary guidelines with some kind of statutory back-up machinery. The Trades Union Congress (TUC) were already considering possible adjustments in pay policy, as were the Confederation of British Industry, and it was high time that the Government defined its own policy. Against this, it was argued that whatever was done about wage inflation had to be done by winning the consent of the unions. To impose a statutory policy would be a breach of faith. The truth was that the adjustments to pay policy which were feasible were not going to produce any spectacular reduction in the rate of inflation. Moreover it would be wrong to put the burden of failure in the past 12 months on the trades unions when Cabinet had itself repeatedly agreed to pay settlements in excess of the TUC guidelines. A statutory policy, which, while it was in operation, would build up intolerable pressures, could only lead to gross injustice. What was needed was to get trade union agreement to a broad policy package, which must include measures to avoid any further increase in unemployment.

THE CHANCELLOR OF THE EXCHEQUER said that, as regards the balance of payments, there was no question but that the country had lived 5 per cent beyond its means in 1974. The deficit was expected to be over £1 billion lower in 1975. Nevertheless, the position towards the end of this year was likely to be worse than it had been in the first 4 months of the year, because those four months had seen the benefit of orders placed earlier which were now drying up. The monthly figures were therefore likely to get worse. It was however wrong to suggest that cutting public expenditure
would lead to increased unemployment. The question was whether people should be employed in the private or in the public sectors. Much public sector employment was, in the literal sense, non-productive; and what the economy needed was an increase in production. The upswing in world trade, when it came, should suck more people into productive activity. He agreed that Ministers must discuss wages policy immediately after the recess. The TUC guidelines had not, for the most part, been complied with, and it was fair to ask whether the Government could rely upon a further voluntary bargain working better next time. In any case, whatever was done on wages, the problem of the balance of resources in the economy remained and the need for the public expenditure cuts would still be there. He repeated his own view that a reduction of £2,000 million would be needed but if Ministers really wished to review their public expenditure priorities, it was clear that some programmes would have to go down more than the average in order to benefit others. For this reason it was essential to identify larger savings in all programmes totalling £3,000 million.

THE PRIME MINISTER, summing up the discussion, said that while the Cabinet were not at one on the need for cuts in public expenditure of the magnitude proposed by the Chancellor of the Exchequer, they accepted that only by asking officials to proceed with the expenditure survey on the basis put forward in the Chancellor’s paper C(75)63 could they ensure that they would have available sufficient options later in the year should major cuts have to be made. The Chancellor of the Exchequer should therefore arrange for officials to proceed as proposed in his paper C(75),62. This did not however imply any assumption about the eventual decision: all that was being done was to prepare the information on the basis of which Cabinet would be able to arrive at firm conclusions later in the year. Before this he would arrange for a full day’s discussion at Chequers of public expenditure priorities. It was also clear that Cabinet would need to resume their discussion of the broad economic strategy shortly after the recess. He noted the wish to consider economic options other than public expenditure cuts. It would be necessary to consider the question of inflation and pay policy, but it was essential to avoid any speculation that a statutory policy was being contemplated since this could lead to a damaging rush of pay claims.

The Cabinet -

1. Took note, with approval, of the Prime Minister’s summing up of their discussion.
2. Invited the Chancellor of the Exchequer to arrange for officials to proceed with the 1975 public expenditure survey on the lines indicated in the appendix to his paper C(75) 63 but on the clear understanding that the Cabinet had reached no decision on the eventual quantum.

Cabinet Office
27 May 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
MONDAY 9 JUNE 1975
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 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 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 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
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1. THE PRIME MINISTER said that there were two procedural rules the application of which had been somewhat relaxed during the referendum campaign but which should henceforth be strictly observed. First, there had been a number of occasions when the text of a speech by a Minister had been released to the Press under an embargo some days before the speech was due to be delivered. This practice should in general be avoided. It could give rise to misunderstanding, particularly if there were a leak or if the speech as delivered had to be changed because of changes in circumstances. Moreover, it was more difficult to ensure that anything which was said about matters outside the speaker's own sphere of departmental responsibility was cleared with the responsible Minister. Secondly, it was important to ensure that such clearance was obtained in all cases, as indicated in paragraph 104 of Questions of Procedure for Ministers (C(P)(74)6).

2. THE LORD PRESIDENT OF THE COUNCIL said that Mr Stonehouse was trying to secure the postponement of the debate on a Motion for his expulsion from the House of Commons which was at present planned for Thursday, 12 June. It was clear that for legal reasons he would be unable to return to this country in time for the debate. Extradition proceedings in Australia were not complete; moreover, Australian law required him to be held for 15 days from the date of his committal for extradition: and this requirement could not be waived. It would be unsafe to agree to his return to this country except in custody and as a result of extradition proceedings, since otherwise there would be no power to prevent his absconding. These difficulties were, however, largely of Mr Stonehouse's own making and would not have arisen if he had not opposed extradition in the first place. The Select Committee would be meeting again on 10 June in order to review the conclusions they had reached in the light of the most recent developments, and the Attorney General had been invited to let them have his views. He was uneasy about the prospect of an early debate for fear that it would prejudice the possibility of Mr Stonehouse's receiving a fair trial in later criminal proceedings. This point had however been discussed with the Speaker, who had indicated that he intended, by applying the normal sub judice rule, to prevent the debate from trespassing on any questions relating to possible criminal activities by Mr. Stonehouse. This would accord with the line which had been taken by the Select Committee, which was that the case for expulsion rested entirely on non-performance of Parliamentary duties and not on any allegations about criminal activities. An important advantage of allowing the debate to take place during the present week was that if it were postponed it would in practice not be possible to hold a by-election before October.
In discussion, anxiety was expressed that an early debate might prejudice the possibility of a fair trial. It was not clear that the sub judice rule formally applied to legal proceedings in Australia as well as in this country; and in any event the Speaker might have considerable difficulty in ensuring the strict observance of the rule in the course of the debate. Moreover, it appeared that Mr Stonehouse was now making genuine efforts to return to this country; and that being so the public might well consider it unjust that he should be expelled from the House of Commons in his absence. On the other hand, if the debate were postponed until he returned to this country it might well in fact have to be deferred until after his trial - ie for many months - since it was doubtful whether he would be granted bail. In any decision for or against an early debate a major factor should be the attitude of the Select Committee, by whose recommendations the Government had hitherto been guided.

THE PRIME MINISTER, summing up the discussion, said that there were arguments for and against proceeding with the debate as planned. In favour of an early debate it had been argued that a by-election could otherwise not take place until the autumn. This should be looked into further: if the argument rested on precedent or on a Standing Order of the House, it was arguable that a change in practice would be justifiable in the special circumstances. A decision would however have to be deferred for 48 hours in order to allow time for the Select Committee to review the position in the light of the latest developments. The Cabinet would not be meeting until the morning of the day planned for the debate, and therefore the decision whether or not the debate should go ahead would be taken on behalf of the Government by a group of Ministers consisting of himself, the Lord President of the Council, the Lord Chancellor, the Home Secretary, the Secretary of State for Employment, the Chief Whip and the Attorney General.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. THE PRIME MINISTER outlined to the Cabinet the substance of the Statement he was due to make in the House of Commons that afternoon on the result of the referendum on membership of the European Economic Community (EEC).

He intended to refer to the clear and unmistakable nature of the decision, and to the widely consistent pattern of voting in the United Kingdom. He would refer to his hope that, with the two tests of the February 1974 Manifesto now met, the country as a whole would follow the lead of the Government in placing past divisions behind them and in working together to play a full and constructive part in the Community. He would recall that, at the outset of the renegotiation, the Foreign and Commonwealth Secretary had said to the Council of Ministers of the Community that a successful result would provide a firm basis for continuing British membership of a strengthened Community. The Statement would also acknowledge the positive attitude of Commonwealth countries to Britain's continued membership and would express the hope that we should be able to bring even more to our relationship with them from within the Community following the clear decision of the electorate. It followed logically from the referendum decision that Britain should play its full part in the Community institutions. This was consistent with the Labour Party's election Manifesto and the line taken during renegotiation. A number of prominent Labour MPs who had been against our continued membership of the EEC had, following the referendum decision, said that the Parliamentary Labour Party (PLP) should now take up places in the European Assembly. This was a decision for the PLP, not the Government; but he would recommend that course in his Statement, and ask the Liaison Committee to pursue it. Similarly a number of trades union leaders had, following the referendum result, said that the trades unions would probably now take up their places in the Community institutions, particularly the Economic and Social Committee.

In conclusion the Statement would emphasise that, while we could best improve our own economic situation, and attract investment from a settled position within the Community, our future would continue to depend on what we were prepared to do by our own efforts.

In a brief discussion it was suggested that the Foreign and Commonwealth Secretary might usefully consider preparing for Cabinet a memorandum which would survey European Community policy and indicate the way in which the Government should approach the main issues and other Community business which lay ahead. The more constructive our general stance, the less likely we were to be forced into a defensive posture on the less easy issues, and the more likely we were to be able to handle matters to our advantage.
The Cabinet -
Took note.

Cabinet Office

9 June 1975
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on
THURSDAY 12 JUNE 1975
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 Eric Varley MP
Secretary of State for Industry (Item 4)

The Rt Hon Roy Mason MP
Secretary of State for Defence

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 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 Anthony Wedgwood Benn 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 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 Reginald Prentice MP
Minister of Overseas Development

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

ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General (Item 4)

SECRETARIAT

Sir John Hunt
Mr P D Nairne (Items 2 and 3)
Mr P Benner (Items 1 and 4)
Mr T F Brenchley (Items 2 and 3)
Mr E J C Smith (Items 1-3)

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

THE LORD PRESIDENT OF THE COUNCIL said that the previous Administration had set up a Committee under the chairmanship of Lord Lothian to organise British participation in arrangements to mark the bicentenary of American independence. One of their proposals was that Congress should be loaned a copy of Magna Carta in a presentation showcase; and Mr Winston Churchill MP had suggested that the presentation might be made at a formal joint session of Parliament and Congress in Westminster Hall. This would involve a good many practical difficulties, and the suggestion now was that there should be a handing over ceremony in Westminster Hall, attended by Members of Congress and of both Houses of Parliament, which would be followed by a banquet at Lancaster House. The next step would be for himself and the Lord Privy Seal to establish informally, through the usual channels, that such a ceremony would be acceptable to Parliament and that the necessary Resolutions of both Houses would have all-Party backing; and then for soundings to be taken to confirm that the proposals would be welcome to the American authorities.

The Cabinet -

Took note, with approval, of the statement by the Lord President of the Council.
FOREIGN AFFAIRS

Reference: CC(74) 44th Conclusions, Minute 3

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that in considering the President of Uganda's threat to execute Mr Hills, a British subject, unless six demands to rectify the alleged unfavourable depiction of Uganda by this country were met, and also his threat to another British subject, it was necessary to take into account the state of his mind. The best tactic was probably the one normally employed with a terrorist who made unreasonable demands, namely to try to keep a discussion going. The Prime Minister had therefore sent him a message which was emollient in tone but conceded nothing of substance. Meanwhile President Kenyatta of Kenya, with whom we were in close touch, was doing his utmost to influence President Amin, as were the Federal German Chancellor, Herr Schmidt and General Gowon of Nigeria. He hoped President Sadat of Egypt might also bring influence to bear; and there was a possibility of Saudi Arabian intervention, which might be effective as their financial support was important to Uganda. A great deal was therefore being done behind the scenes but it seemed best not to raise the level of the dispute. The Opposition were being co-operative in this respect.

In discussion it was suggested that if the execution did take place the Government's reaction should be sharp and rapid, including total British withdrawal from Uganda and suspension of Uganda from membership of the Commonwealth. On the other hand it was argued that the 700 Britons still in Uganda included many missionaries, volunteers and traders who had ignored all advice to leave; and for Commonwealth membership this was not a decision which Britain could take in isolation as 32 other Heads of Government were involved. A number of other suggestions were made, including the use of the Special Air Service (SAS), the offer of free publicity to Uganda in this country, the sending of an emissary to Uganda or even an invitation to General Amin to visit London. All however seemed open to some objection.

THE PRIME MINISTER summing up the discussion, said that President Amin's evident mental instability made him unpredictable and it was right to consider unorthodox ways of dealing with the situation. The Cabinet agreed however that there was no alternative at present to maintaining a dialogue in the hope that this, coupled with pressure from other countries behind the scenes, would result in a favourable outcome.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion.
THE FOREIGN AND COMMONWEALTH SECRETARY reporting on his recent talks with the Egyptian Foreign Minister said that Mr Fahmy had been hopeful that an early United States initiative for a comprehensive approach to a Middle East settlement might be successful. The Israeli Prime Minister, Mr Rabin, with whom the Prime Minister and he had also talked, had appeared to take the same view. However he was himself not sure that the latest trend of American thinking still favoured a comprehensive approach of this kind. The alternative was to return to the step by step approach in an attempt to bridge the Egyptian offer of an undertaking on no recourse to force for an undefined period but until a further agreement, and the Israeli demand that such an undertaking should be given for a specific period of 5 years. There was not however much time remaining during which the atmosphere for a settlement would be right, and the United States would soon be preparing for the 1976 Presidential election. It was therefore necessary to use all possible influence with the Israelis to persuade them that time was not on their side. Egypt currently wanted a settlement but the Israelis, if they were not more flexible, might find they had missed the tide. Mr Fahmy had wanted to see a more active British role in efforts towards a settlement, but it would be wrong for us to cross wires with the Americans. Our bilateral relations with Egypt continued to improve: new agreements on co-operation had just been signed and he was encouraging Trades Union Congress leaders, including Mr Jack Jones, to be active in fostering relations with Egypt.

THE PRIME MINISTER agreed that the American administration seemed to be moving away from their original intention of a comprehensive approach to a Middle East settlement and were likely to revert to the step by step approach. Israeli relations with the White House were cooler than they had been and there was a danger that Israel might take a rigid attitude in the hope of getting a more sympathetic President after the elections. But any change of Administration in the United States in November 1976 would be followed by a six months' stalemate before the new Administration could be effective, and he doubted whether the Arabs would hold their hand so long. It was satisfactory that the Russians were not playing an active role in the situation at present, although it was noted that their attitude might change once they had secured the European Security Summit in Helsinki.

The Cabinet -

2. Took note of the statements by the Prime Minister and the Foreign and Commonwealth Secretary.
THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Ian Smith had agreed to a visit from the Minister of State for Foreign and Commonwealth Affairs (Mr Ennals). The latter would also have other important talks in Southern Africa. But despite this encouraging development, he feared that the odds were still against a Rhodesia settlement.

The Cabinet -

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

There was a short discussion on Chilean Debts. It was confirmed that the Export Credit Guarantees Department (ECGD) was entering into no new commitments over trade with Chile and that any ECGD losses referred to in the Press related to old transactions. The Cabinet's decision not to reschedule Chilean debts last year had been taken on principle and in the knowledge that this would cost some millions of pounds; but given the number of other countries which had agreed to rescheduling, it was questionable whether our decision had brought effective pressure on Chile. Our policy could be more fully reassessed when a further decision on rescheduling became necessary.

The Cabinet -

4. Took note.

3. THE CHANCELLOR OF THE EXCHEQUER said that the position of sterling was causing serious concern. It had suffered the most severe attack, and the position that morning was again bad. Despite rumours that the selling of sterling was inspired by a single source, there had in fact been heavy selling of the currency throughout the world. He was in close touch with the Governor of the Bank of England on the technical management of the situation. It was hoped to get this under control in the immediate future but our action would buy a temporary respite only. Our will to tackle the problem of inflation was doubted and with increasing loss of credibility it would become more and more expensive to hold the exchange rate. The position had to some extent been aggravated by the expectation, which the Government had not fulfilled, that immediately after the referendum they would take sweeping action on the economic front. All this was against a background where British wage settlements were being made at four times the level of settlements in West Germany, and where British inflation was likely to run at more than
double the rate in our principal competitor countries. There was an urgent need for a new incomes policy: the situation might not allow, as he had previously hoped, the deferment of this until the middle of July. Several of the leaders of the trade unions were being encouragingly realistic; but the problems of ensuring compliance with a realistic policy remained unresolved.

In discussion the seriousness of the position was noted. On the other hand there were some more favourable features. There had been a sustained improvement in our balance of payments - an improvement which now more than offset the increased cost of our oil imports. If the proposals for a new incomes policy under preparation were introduced and were effective, sterling could even be seen to be under-valued. On the other hand the fall in the value of sterling had of itself increased costs particularly of such basic elements as food and fuel, making it more difficult to hold steady retail prices in those sectors, as the trade unions were demanding.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet would have a thorough discussion of the economic situation the following week. In the meantime all Ministers should avoid, if at all possible, making any speeches on the economic situation or the position of sterling. If existing speaking engagements required any such reference, the relevant passages should be cleared with the Chancellor of the Exchequer and, where appropriate, with the Secretary of State for Employment.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
4. The Cabinet had before them a memorandum by the Secretary of State for the Environment about late implementation of the Housing Finance Act (C(75) 65).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that a problem had arisen over the handling of clause 4 of the Housing Finance (Special Provisions) Bill, which had recently been given a Second Reading in the House of Lords after completing all its stages in the House of Commons. Clause 4 gave effect to the Cabinet's earlier decision to remove from the local councillors concerned any disqualification from civic office caused by a surcharge arising from failure to implement the Housing Finance Act. In practice this provision applied only to the Clay Cross councillors. A new situation had now arisen because the Clay Cross councillors had been surcharged for £50,000 in relation to matters unconnected with the Housing Finance Act; and since the period during which they were entitled to appeal had expired on 28 May without an appeal being lodged, they were now disqualified. The disqualification would run for the normal period of five years. Therefore, as a result of this additional disqualification, clause 4 had become otiose. The Opposition in the House of Lords were of course hostile to the clause in principle, and had put down a Committee Stage amendment deleting it which would no doubt be carried whatever attitude the Government adopted. The Government's choice lay between indicating, either in advance or during the Committee Stage debate, that they were prepared to accept the amendment; and fighting it - which could involve seeking later restoration of the clause in the House of Commons as well as resisting the Opposition amendment in the Lords. While arguments of political consistency could be advanced in favour of the latter course, the balance of advantage in his view clearly favoured acceptance of the amendment.

In discussion, it was argued that the heat generated by resisting deletion of the clause would make it more difficult to carry the other provisions of the Bill, to many of which it was clear that opposition could be expected in the Lords. The Bill might in consequence be delayed, and could even be lost if there were a serious confrontation between Lords and Commons; and this would jeopardise the position of the 400 other councillors who stood to be surcharged and disqualified in the absence of legislation. Moreover there were many Labour Party supporters in Parliament and in the country who had always had serious reservations about clause 4. In the circumstances created by the further disqualification of the Clay Cross councillors, opposition to the deletion of the clause would be most unwelcome to them, and it was likely that some backbench Government supporters in the Commons would refuse to vote for a Motion for the restoration of the clause after it had been struck out by the Lords. Moreover Government spokesmen would have
considerable difficulty in presenting a convincing argument for the retention - still more for the restoration - of a provision which was clearly otiose. It was, however, important that the Parliamentary Labour Party should be consulted in advance about the course to be adopted, though it could not be ignored that this would not be a convenient time for discussion of a matter about which there were strong feelings. On the other hand, it was argued that, when in opposition, the Labour Party had given a clear commitment that the Clay Cross councillors would be relieved of their disqualification; and this commitment had subsequently been confirmed by the Cabinet. It would be most damaging for the Government to renege on the undertaking, all the more so because they would appear to be acting at the behest of the Opposition in the Upper House. Moreover, it must be remembered that the actions of the Clay Cross councillors had played a great part in awakening the public conscience to the evils of the Housing Finance Act. The better course would therefore be for the Government to stick to their guns and allow themselves to be defeated, and thus preserve consistency of principle.

THE PRIME MINISTER, summing up the discussion, said that although, in the circumstances created by the further disqualification of the Clay Cross councillors for reasons unconnected with the Housing Finance Act, there were strong logical arguments for not seeking to retain clause 4, there were political and presentational considerations which tended in the opposite direction. The Cabinet agreed that on balance the preferable course would be to resist the Opposition amendment in the House of Lords in the knowledge that the Government would be defeated. The Government spokesman need not do more than offer a formal defence of the clause, and in particular should say nothing which could heighten the political temperature in the House of Lords and thus prejudice the prospects of the other provisions of the Bill or of the other contentious legislation which would be coming before that House during the remainder of the Session. The Parliamentary Labour Party should subsequently be consulted about the action to be taken when the Bill again came before the House of Commons, and it was to be hoped that they would agree that in the circumstances it would not be appropriate for the Government to seek the restoration of the provisions at present contained in clause 4.

The Cabinet -

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

Cabinet Office

12 June 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 19 JUNE 1975
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 Eric Varley MP
Secretary of State for Industry

The Rt Hon Roy Jenkins MP
Secretary of State for Foreign and
Commonwealth Affairs

The Rt Hon Lord Elwyn-Jones
Lord President of the Council

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 Roy Jenkins MP
Secretary of State for the Home Department

The Rt Hon Anthony Wedgwood Benn 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 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 Michael Foot MP
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The Rt Hon Peter Shore MP
Secretary of State for Trade

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
### Secretaries

- **The Rt Hon Lord Shepherd**
  - Lord Privy Seal
- **The Rt Hon Reginald Prentice MP**
  - Minister for Overseas Development
- **The Rt Hon Fred Mulley MP**
  - Secretary of State for Education and Science
- **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 (Item 2)
- Sir Patrick Nairne (Item 2)
- Mr P Benner (Item 1)
- Mr J A Hamilton (Items 3-5)
- Mr T F Brenchley (Item 2)
- Mr E J G Smith (Item 1)
- Mr J Peters (Item 4)
- Mr C R Walker (Item 2)
- Mr A M Macpherson (Items 3 and 5)

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The Cabinet were informed of the business to be taken in the House of Commons during the following week. It would be wise to mention to the Opposition the possible implications of the sub judice rule for the Supply Day debate on postal ballots for trade union appointments which was planned for 23 June, in view of the fact that the appeal period against an injunction recently granted by the courts in a specific case had not yet expired. Apart from this however there seemed good grounds for discussing a matter which had given rise to considerable public interest.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that there had so far been no formal reply from President Amin to his offer to visit Kampala for discussions if Mr Hills and the other threatened Briton were reprieved. Meantime diplomatic action continued. It had been indicated to President Amin through President Kenyatta that following a reprieve the spare parts he required would also be made available quickly. Many other Heads of State had intervened helpfully, although some did not wish their action to be known. President Nimeiri of the Sudan, who felt particularly incensed at the slur on Africa's image, had sent a Minister to Kampala to deliver a personal message. The Prime Minister would shortly be sending a further message to President Amin. In all these dealings with President Amin he had received advice from a leading psychiatrist. He had considered asking the International Court of Justice to intervene but had decided not to do so, partly because it seemed unlikely that President Amin would have regard to the Court and partly because it might reduce the impact of a message which The Queen might be sending to President Amin. It would be quite wrong to send a British Minister to Kampala in advance of clemency for Hills because such a surrender to blackmail would only encourage President Amin to more extravagant demands of this kind and endanger the lives of other British nationals in Uganda.

In discussion it was suggested that more use might be made of President Amin's eagerness to hold the Organisation of African Unity (OAU) Conference in Kampala: if African Heads of State refused to go to Uganda unless clemency were shown this might be an effective means of pressure. On the other hand President Amin's anti-British attitude was not necessarily unpopular in parts of Africa and whatever their views on the Hills case it was unlikely that many African Heads of State would be willing to boycott a Kampala meeting. It was significant that many of those who were urging clemency privately on President Amin did not wish this to be publicly known.

THE PRIME MINISTER, summing up the discussion, said that his forthcoming message to President Amin would make it clear that executions would cause a tremendous reaction in the United Kingdom and would do major and lasting damage to our relations with Uganda. It did not seem possible to capitalise on President Amin's desire to hold the OAU meeting in Kampala. He was still hopeful that the message already sent by the Archbishop of Canterbury might have some influence on him but it should not be forgotten that President Amin seemed to have a particular affection for Scottish institutions. It was possible that a message from the Moderator of the Church of Scotland or the Colonel of a Scottish regiment would have some effect: the Secretary of State for Scotland should consider this possibility urgently and let the Foreign and Commonwealth Secretary have his advice later that day. Otherwise all practicable action seemed to have been taken or put in hand.
The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. The Cabinet considered memoranda by the Lord Chancellor (C(75) 68) and the Secretary of State for Trade (C(75) 69) on employee participation on company boards.

THE LORD CHANCELLOR said that the Ministerial Group under his chairmanship which had been invited to examine the question of industrial democracy had been deeply divided on the question whether the Government's detailed proposals for the promotion of industrial democracy should be preceded by the appointment of an independent, external committee of inquiry to review employee participation on the boards of private companies or by an internal inquiry by officials. Although a majority were in favour of an internal inquiry, the case for an external inquiry was strongly argued, and he thought it fair to allow the Ministers principally concerned to put their case directly to Cabinet. On a number of subsidiary matters the Ministerial Group had reached conclusions which, if approved by Cabinet, would stand whatever the decision about the proposed inquiry. These conclusions were set forth in paragraph 6 of his paper.

THE SECRETARY OF STATE FOR TRADE said that there were far-reaching implications in the proposals for employee participation on company boards. What the Trades Union Congress (TUC) wanted to achieve was joint control of the whole of the private sector of industry. This would represent a major shift in power and responsibility, and would have far-reaching consequences for the management and planning of industry and on major financial decisions in the private sector affecting profits and investment. It was the Government's duty to ensure that these questions were thoroughly explored before proposals were formulated, and the most satisfactory way of doing this was to appoint an independent committee of inquiry which could consider all aspects of the problems. This would permit a free exchange of views and clarify difficulties that were likely to arise. In so far as there was common ground between the TUC and the Confederation of British Industry (CBI) this could be identified, and there would be less likelihood that the Government's policy would have to be forced upon one side or the other. He conceded that there were differences of view on both sides, but it was as well that these should, so far as possible, be reconciled at the earliest stages of discussion, before the Government's own proposals were made public.

THE SECRETARY OF STATE FOR EMPLOYMENT agreed that the question of how workers might be represented on the boards of private companies was of fundamental importance, but the choices which the Government would have to make would be essentially of a political nature, and there was nothing to be gained by inviting an independent inquiry to consider the range of options. The TUC were
hostile to the whole idea of an external inquiry, and if this was how the Government proceeded, it would cause unnecessary difficulties with them. The co-operation of the TUC was essential if the Government's proposals for industrial democracy were to be widely accepted by the trades union movement. He urged that it would be preferable to appoint an internal inquiry into the legal and technical problems that would need to be resolved, and that this should be followed by the publication of a Green Paper outlining the Government's own proposals. After the Green Paper there would no doubt be wide consultation on the Government's proposals, and there would be nothing to prevent a tripartite discussion then between the Government, the TUC and the CBI, if this was thought desirable. Furthermore, there was no certainty that Mr Radice's Industrial Democracy Bill would not come back to the floor of the House of Commons for its third reading on 11 July. If this happened, steps would need to be taken to block the Bill, and this would create bad feeling: Mr Radice would be prepared to withdraw his Bill if he were given assurances that there would be an internal inquiry and a commitment to legislation.

In discussion, it was argued in favour of an independent committee of inquiry that it was most important, before the Government began to formulate its own proposals, that there should be widespread public discussion of the issues involved. It need not necessarily be supposed that the CBI and the TUC would take opposite views on all of these issues, nor that there would be a polarisation of attitudes in the committee which would leave the independent members to make an impartial decision on points of controversy. It was much better that these matters should be thrashed out in the public forum of an independent inquiry, and the TUC would have an important part to play in this discussion. It had to be borne in mind that on many of the questions which an independent review would be considering, there was no great degree of expertise in Whitehall or in Westminster, and it would be valuable to the Government if the committee could include among its membership a number of prominent authorities who could give authoritative advice on the difficulties that would need to be faced. Although there was no doubt that the TUC would have a crucial part to play in the setting up and the work of an independent inquiry, it had to be remembered that the trades unions had, until recently, shown no great interest in industrial democracy. Some unions had shown a great deal of reluctance when asked to serve on the boards of nationalised industries. The TUC could therefore hardly expect to have the final word on whether an external committee of inquiry should be appointed, nor should they be allowed to lay down the terms of reference of such an inquiry. There might also be some suspicion, amongst certain unions, of a study based upon work done by Government officials.
On the other hand, the case for an internal inquiry by officials was that the Government would sooner or later have to make a political decision on how to proceed and could not look to an independent committee of inquiry for guidance on this. There was, moreover, a danger that the external inquiry would pre-empt political decisions that were the responsibility of the Government. On the other hand a study by officials could identify models which could be applied to a variety of industrial situations, and which would allow a more realistic discussion. The terms of reference proposed would restrict the external inquiry to a review of employee representation on the boards of directors; but the question went much beyond this. It would be a pity if the result of the inquiry were to lead to a hardening of attitudes on the part of the TUC and the CBI before the Government's own proposals could be brought forward. There were already several developments in worker participation, and it was not necessary to appoint an independent inquiry to stimulate public discussion of the issues involved. The main objection however to an external inquiry was that it would alienate the sympathies of the TUC. The suggestion that the inquiry should consider a wide range of options would be received with dismay by the TUC. It would, at the present time, be most unwise to run the risk of sacrificing the goodwill of the TUC. Before any further decisions were taken, it was highly desirable that there should be informal discussions, either with the TUC/Labour Party Liaison Committee or with the TUC itself.

In further discussion, it was argued that the terms of reference presently proposed for the external committee of inquiry should be redrafted to permit the committee to consider employee participation below the level of representation on the boards of directors. There was also an argument for studying employee participation in the Civil Service including the Royal Ordnance Factories. The decision on who would chair the inquiry would have an important bearing on the committee's recommendations. For a subject of this nature it would hardly be appropriate to appoint a judge as chairman.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were predominantly in favour of the appointment of an external independent committee of inquiry. The main function of such a committee would be to consider how industrial democracy could be extended by the appointment of employees to the boards of private companies; but fresh terms of reference should be drawn up by the Lord Chancellor's Ministerial group to permit the committee to range over a wider field than was originally proposed by the Secretary of State for Trade. The Government should not however make a final decision on the form of the inquiry until there had been further informal discussion between the Ministers concerned and the TUC; the aim should be to try and bring the TUC round to the Government's way of thinking. The subject should not be raised at the meeting of the TUC/Labour Party Liaison Committee on 23 June but deferred to a later meeting. The
Secretary of State for Employment would make a statement in Parliament before 11 July about the Government's intention to introduce legislation in the 1976-77 Session. The Lord Chancellor's group of Ministers should also make proposals about the appointment of a chairman and members of a committee, and suggest a timetable to which the committee might work with a view to permitting the Government to introduce a Bill in the Parliamentary Session 1976-77. The question of an internal inquiry into industrial democracy in the nationalised industries and other bodies for which the Government was responsible could be reviewed in the light of the group's further recommendations.

The Cabinet -

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

2. Invited the Lord Chancellor to arrange for his group of Ministers to draw up fresh terms of reference for an independent committee of inquiry, after further informal consultation with the TUC; to make proposals about the appointment of a chairman and members of such a committee; and to propose a timetable to which it might work.

3. Invited the Secretary of State for Employment, in consultation with the Lord President of the Council, to prepare a statement to be made in Parliament before 11 July indicating that the Government proposed to set up an independent committee of inquiry and to introduce legislation on industrial democracy in the Parliamentary Session 1976-77.
4. THE CHANCELLOR OF THE EXCHEQUER recalled that in January the Cabinet had taken decisions on action to tackle the abuses of the Lump in the construction industry. A simpler procedure had now been proposed, and the Ministerial Committee on Economic Policy had agreed that it should be recommended to the Cabinet. The decision in January was that the Minister for Planning and Local Government would draft a Bill whereby there would be a register of sub-contractors and a penal levy starting at 30 per cent (on top of a tax deduction rate of 30 per cent) on main contractors who used unregistered labour; and the Finance Bill would tighten up the existing Inland Revenue scheme for securing tax deductions. Arrangements were to be worked out to ensure that a genuine self-employed tradesman did not have to pay the penal levy. Accordingly, the two Departments went ahead with drafting the Bills. The Finance Bill proposals had been welcomed by the Trades Union Congress (TUC), they safeguarded the genuine self-employed man, and indeed they were now accepted by the Minister for Planning and Local Government as meeting all the essential purposes of his own scheme, provided three points were covered. The first point was that a provision about insurance should be incorporated into the Finance Bill; this was accepted. The second point was that there should be a Construction Industry Manpower Board to make sure that the problems of the Lump did not recur in the industry; this too was accepted, on the understanding that the Board would seek to monitor only the effects of the Inland Revenue scheme and not its technical working. The third point was concerned with the proposed levy. The Minister's Bill could not have introduced a levy before next year; and it was too late for this year's Finance Bill to be amended to introduce such an important new provision, except at the cost of pushing back the introduction of the new Inland Revenue scheme from the spring of next year to the spring of 1977. The Economic Policy Committee had agreed that the right course was to say, at the Report Stage of the Finance Bill, that the Government intended to consider next year, in the light of the working of the new Inland Revenue arrangements, whether there should be a penal levy in addition, and if so, at what rate it should start; it was relevant that the proposed tax deduction rate was now to be 35 per cent, and not 30 per cent as at the time of the previous discussion. If the Cabinet were content to accept this proposal, then some legislation would be saved, as well as several hundred extra posts which the Department of the Environment would have needed to administer the levy. It would be necessary to explain the Government's intentions carefully to the TUC, who were expecting a Bill; in the light of their reaction, it might be better to set up the Construction Industry Manpower Board by a new, short Bill, though it could be done administratively. Departments would also need to consider in due course a point about the Treaty of Rome, namely the possibility that a levy linked to the Inland Revenue scheme might be regarded as discriminating against the nationals of other Member States; he felt sure that other members of the Community would be sympathetic to the Government's aim of tackling the abuses of the Lump.
THE MINISTER FOR PLANNING AND LOCAL GOVERNMENT confirmed that he was in agreement with the arrangements now proposed; in present circumstances, it would not be right to incur the extra cost of several hundred additional staff to apply a marginally greater degree of pressure to tackling the abuses of the Lump. In his view, the TUC were mainly concerned to see that the Construction Industry Manpower Board was set up, so that there would be a continuing watch to ensure that the abuses of the Lump did not recur; and legislation was not necessary, if the TUC were prepared to accept that the Board should be set up by administrative action.

In discussion, there was general agreement that the proposed new arrangements were acceptable on their merits. It was however highly unsatisfactory that they had been brought forward after Ministers had been committed, both in Parliament and to the TUC, to bring forward certain legislation in the current Session. They should therefore be explained in advance to the TUC to ensure that they would be regarded as meeting the Government’s commitment. Depending on the reactions of the TUC, it could be decided later whether the Construction Industry Manpower Board should be set up by a short Bill, or by administrative means.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were ready to agree to the revised proposals outlined by the Chancellor of the Exchequer: they regarded it as essential however that they should not be opposed by the TUC. There should be a private meeting between Mr Murray, Mr Jones and other union leaders concerned with this problem, and a small group of Ministers including the Secretary of State for Employment, the Minister for Planning and Local Government, and the Paymaster General. The outcome of the meeting should be reported by minute to the Cabinet, but provided the TUC were content there would be no need for the Cabinet to discuss the matter further.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister.
5. THE SECRETARY OF STATE FOR EMPLOYMENT said that the negotiations between the British Railways Board (BRB) and the three railway unions had not yet reached any conclusion. Discussions were at a most delicate stage and it was possible that they could end in deadlock. The Cabinet might need to consider the matter further at their meeting at Chequers the following day.

THE HOME SECRETARY said that the Civil Contingencies Unit, under his chairmanship, had been keeping closely in touch with developments over recent weeks. His assessment was that a national rail strike would not begin to bite hard on essential services during the first month or so. However, it would be necessary for the British Railways Board and the Metropolitan Police to issue public statements about their contingency plans; and for the Department of Industry to establish regional contact points at which the effects of the strike on industry could be monitored. The Department would need to make public the telephone numbers to which enquiries should be directed. He did not think that the issue of publicity about these contingency measures need be provocative and he recommended that the BRB, the Metropolitan Police and the Department of Industry should go ahead as they proposed. The Post Office would also need to tell the public that no further parcels would be received after a certain time, and a statement would be issued to this effect. It would be necessary to safeguard certain stocks of oil for priority users who were supplied through rail-fed terminals, and he hoped that the Cabinet would give their contingent approval to the issue of a Direction by the Secretary of State for Energy to the companies owning such terminals requiring them to reserve their stocks for such users. Although his paper had invited the Cabinet to consider whether any statement should be made in Parliament before the end of the week about the Government's contingency plans, he felt on further reflection that such a statement should not be made.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet took note that public statements about their contingency plans would be issued by the British Railways Board and the Metropolitan Police; by the Department of Industry about their regional contact points; and by the Post Office about the curtailment of the parcel service. They agreed that the Secretary of State for Energy should have authority to issue a Direction reserving the issue of stocks of oil from rail-fed terminals to priority users as soon as he judged that stocks should be safeguarded in this way. They agreed that there should be no public statement in Parliament that week about the Government's contingency plans.
The Cabinet -

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

Cabinet Office

19 June 1975
CONCLUSIONS of a Meeting of the Cabinet
held at Chequers on
FRIDAY 20 JUNE 1975
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 Eric Varley MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

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 Anthony Wedgwood Benn 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 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 Fred Mulley MP
Secretary of State for Education and Science

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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 J A Hamilton
Mr J A Marshall
Mr A M Macpherson

SUBJECT
ECONOMIC STRATEGY
The Cabinet discussed Economic Strategy. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

23 June 1975
The Cabinet had before them memoranda by the Secretary of State for Employment (C(75) 66 and 67), a note by the Secretary of the Cabinet (C(75) 70) and a note by the Chancellor of the Exchequer (C(75) 72).

THE PRIME MINISTER said that there were three major Cabinets on economic matters in prospect. The present meeting was concerned with the economic situation generally, concentrating on inflation and pay policy. There would be a discussion in early July on the Medium Term Economic Assessment, leading to broad decisions on the allocation of resources between public expenditure and private consumption. And there would be a meeting on 25 July about public expenditure priorities in the light of which the public expenditure survey would then continue, leading to final decisions on public expenditure in the autumn. The purpose of the present meeting was not to reach final decisions on how to deal with inflation, but to provide an opportunity for a frank exchange of views so that the Cabinet could reach a consensus about a solution which the country and the trades unions would find acceptable.

THE SECRETARY OF STATE FOR EMPLOYMENT said that there were three courses between which the Government could choose in framing an incomes policy for the next pay round. They could continue with the present voluntary policy, operating within Trades Union Congress (TUC) guidelines; they could continue with collective bargaining without any guidelines; or they could opt for a statutory incomes policy. He favoured the first of these options since each of the others had obvious disadvantages. A voluntary policy without guidelines ran the risk of being ignored in the private sector; while the Government would attract all the odium associated with applying the policy stringently in the public sector. As for a statutory incomes policy, he believed that it would give rise to very serious difficulties. There would be strong resistance from the trades union movement, despite the findings of recent public opinion polls,
and a rigidly applied statutory policy would almost certainly lead to serious industrial disputes that would deter foreign investors. The TUC had however drawn up proposals of their own on the development of the social contract which he had circulated under cover of C(75) 67. The TUC document had not yet been formally endorsed; it was due to be considered by the General Council on 25 June. The Chancellor of the Exchequer, the Secretary of State for Prices and Consumer Protection and he would be meeting the TUC later in the day to discuss the paper, and he urged that the Cabinet should give their support to the TUC approach. If the Government did not support this initiative, they would have to hammer out a separate policy of their own, and in doing so they would run the risk of damaging their relations with the TUC. The document pointed to the need to get the rate of price inflation down to at least 15 per cent. This target called for a major effort to get average wage increases below 20 per cent early in the next wage round. The document suggested a number of options for achieving this. The Chancellor of the Exchequer had however suggested that the Government's target for reducing the rate of inflation should be a halving of the current rate of inflation by the third quarter of 1976. This would imply a wage norm of 10 per cent for the next round of pay negotiations; the TUC were extremely unlikely to be willing to accept a figure at this level and even if they accepted it would find it almost impossible to ensure compliance from individual unions. He therefore suggested that a more reasonable target would be a wage norm of 15 per cent. If the Government did decide to back the TUC document he hoped that, for the time being, there would be no mention of target figures either for reducing the Retail Price Index (RPI) or for a wages norm. His suggestion was that there should be a Government statement on incomes policy in mid-July covering the Government's overall objectives, the target figures for wage norms and reduction in inflation, higher incomes, and the salaries of Members of Parliament. It might be worth while having a report by officials on top salaries and the effect of Review Body awards. Once a wages increase target had been set, it would be of the highest importance to ensure that there was widespread compliance with this when wage settlements were being made. It must be recognised however that there would be some degree of slippage, and the hopes of compliance over the next pay round had been darkened by the recent decision by the Amalgamated Union of Engineering Workers (AUEW) opposing any form of pay restraint. Nevertheless, the chances of making the social contract work over the next round were better than last year, and if there were a fixed pay norm, this would make matters easier. The TUC were anxious to put their policy across to the country, and the Government should be supporting them in this. One way of doing this would be for the Government to publish a White Paper in July which would set out in simple terms what a particular wage norm would mean in terms of reducing the rate of price inflation. It was essential that the country should have confidence in a policy to bring down the rate of inflation and that workpeople should willingly consent in operating such a policy. He did not believe that the Government could force a harsh prices and incomes policy upon an unwilling country.
THE CHANCELLOR OF THE EXCHEQUER said that the economic situation of the country required the Government to be more drastic in its action than had been suggested. Although the balance of payments situation had improved, and although the United Kingdom was doing better in respect of unemployment and output than other Organisation for Economic Co-operation and Development (OECD) countries, the United Kingdom rate of inflation was double that of OECD as a whole, and unit wage costs in Britain were four times higher than the average in other OECD countries. Foreign funds were still flowing into the country, but this situation could change with dramatic suddenness, and if there were a large-scale outflow of funds later in the summer this would compel the Government to impose drastic emergency measures. These might involve cuts in public expenditure of £1,000 million starting in the current year, which could lead to a rise in unemployment that might leave 2 million people out of work in 12 months. There would inevitably be cuts in real income and in investment. None of these grave measures would in themselves have any effect on inflation, so it would still be necessary for the Government to introduce a statutory wages policy. The urgency of the economic situation required the Government to produce a credible prices and incomes policy by the end of July at the latest. The most dramatic solution would be to freeze wages for a year which would bring down the annual rate of increase in the RPI to 6.6 per cent by late 1976. This would represent a fall in real incomes of 7 per cent, and probably put 60,000 people out of work. There was no chance that such a policy would be acceptable. If the Government were to aim to halve the rate of price inflation by the end of the next pay round, it would be necessary to keep wage increases below 10 per cent, or a flat rate of £5. Even these rates of increase made no allowance for the effects on the economy of a continuing depreciation of the exchange rate, of an oil price rise later in the year, or of increasing deficits in the nationalised industries. The Government had to convince the TUC of the necessity of a tough incomes policy. Admittedly the TUC proposals in the document attached to C(75) 67 were highly significant in that they demonstrated that the TUC were for the first time proposing that wage rises should be related to the following, rather than to the previous year's, price increases. The Government should support the TUC in the line they were proposing, especially since some union leaders might not find it easy to persuade their own unions to accept these proposals. The degree of compliance with whatever wages norm might eventually be agreed was however of fundamental importance; we should aim to achieve better results in this respect than we had done over the past year. He agreed that there would have to be acceptance on the part of the trades union movement; but the Government had to devise policies which would meet the serious situation with which they were confronted and at the same time retain the confidence of the country's foreign creditors. An important aim of any policy should be to prevent public sector employers from paying increases above the agreed wages norm; and
it would thus be necessary to suspend arbitration and the use of review bodies in the public sector and to abandon the principle of comparability. If the Government were to commit themselves to keeping within the agreed guidelines in respect of employees for whose pay they were ultimately responsible, they had to ensure that private employers followed suit, and this would not be easy; but unless they could do so, they would find themselves being pushed into a statutory incomes policy. If the Government could not persuade the trades union movement to accept a voluntary incomes policy with stringently drawn guidelines, they would be driven to economic policies which would have grave effects upon public expenditure and employment. The present rate of high wage settlements was in effect beginning to force a Labour Government to adopt Tory policies. Moreover, he could not afford to introduce any demand reflation in the economy until an effective wages policy was being seen to work.

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION stressing the gravity of the economic situation, said that the control of events could be wrested out of the Government's hand at any moment. She thought that the timetable put forward by the Chancellor of the Exchequer was too relaxed; the Government must have a clear policy by the end of June. The cardinal aim of the Government's policy should be to get the rate of inflation down to a single figure year-on-year by the autumn of 1976; even this rate of inflation would still present grave difficulties and the ultimate target must be a zero rate. To achieve such a target, an incomes norm of 15 per cent for the next pay year was much too high. The figures provided by the Treasury suggested that the country could not afford a wages increase norm higher than 10 per cent. To achieve this would call for some very hard decisions, and it would not be possible to hold to such a norm unless an independent body - which might be set up jointly by the TUC and Confederation of British Industry (CBI) - were set up to monitor and report on whether individual wage settlements did or did not conform to whatever norm or guidelines were adopted. The degree of compliance would be crucial to the success of the policy. One way of encouraging both employers and employees in the public and private sectors to comply with an agreed incomes norm might be to prevent costs incurred in making wage settlements above the norm from being passed on in prices. In the public sector, no increases in public expenditure would therefore be sanctioned to cover the excess, nor would price or fare increases be allowed. Any wage settlements above the norm would thus need to be financed by savings from other parts of the annual budgets of the Department or nationalised industry concerned. Similar action would be needed in the private sector, though there would be greater difficulties there. She did not believe that price increases to finance inflationary wage rises should be passed on automatically to the public. Frequently it was the poorer sections of the community who had to bear the brunt of such increases. She appreciated that there would be pressure to match tougher control of incomes by
tougher control of prices, but she did not believe that profit margins in many industries could be squeezed very much further. Many firms were already only just remaining profitable and no more, and it would be difficult to place severe restraint on the prices of essential goods unless firms were convinced that an effective incomes policy could be secured. Any thought of a price freeze was an illusion: the TUC did not understand this and the Government should make it clear to them. If it were felt that the trades union movement would not be prepared to go along with a 10 per cent incomes norm over the next pay round, it might be possible to achieve the same effect on inflation with a larger wages norm if payments were staged at 6 monthly intervals. The net effect over the whole round might still bring the RPI down to single figures by late 1976. If the policy were actually seen to be working it might be possible to achieve some degree of selective price stabilisation starting in, say, the first quarter of 1976. So far as compliance was concerned, it would be worth while examining the possibility of synchronising wage settlements and long-term agreements. She was sceptical of the chances of a voluntary policy succeeding but she agreed that this, rather than a statutory scheme, was the right starting point.

In the course of discussion it was argued that too little account had been taken of the extremely precarious nature of the present situation. Even the timescale suggested by the Chancellor of the Exchequer - to have a credible policy by the end of July at the latest - was probably unduly long. At any moment the Government's hand could be forced by a run on the pound which would lead to national disaster. At the latest the Government must have a policy by the middle of July. This should include wage settlements at 10 per cent, and there should be some kind of sanction even if it were kept in the background. Failing this, the policy would not work and the Government might well face a collapse of sterling in August. While it was difficult to find satisfactory sanctions, psychologically it was important that the force of law should lie behind the policy in order to secure general acceptance. The escalation of the public sector borrowing requirement was gravely damaging to the economy and incompatible with an effective anti-inflationary policy. Stringent public expenditure cuts would be needed to get it under control, but these would involve grave damage to public services and could only be faced if they were backed by an effective incomes policy. The control of public expenditure in constant price terms had been disastrous, and ceilings in money terms would be essential. There should be a review of all the main social programmes, on an interdepartmental basis, and to the same depth as had been the case with the defence review.
There was general support for the view that the problem was one of great urgency. It was suggested that overseas observers had expected the announcement of a firm policy immediately after the referendum on the European Community. It would be necessary to present a package to Parliament before the end of July, and this should include both an incomes policy and cuts in public expenditure. There was agreement on the need to achieve a consensus. A voluntary policy had no chance at all unless the Government could give a clear assurance that those who settled in the early part of the wage round would not be any worse off than those who settled later. The Government must make clear its intransigent determination to ensure that the necessary policies would be carried through.

In further discussion the view was expressed that a statutory policy would have to be introduced within a matter of weeks, in spite of the enormous difficulties it involved, because the results of any other policy would be even worse. It would of course be preferable if an improved voluntary policy could be allowed to run on for some months in order to assess its success, but it was argued that there was insufficient time for this. The TUC paper already recognised that settlements must be below the going rate of increase in the RPI. It was not credible that settlements below the RPI could be achieved on a voluntary basis; nor was it fair to ask trades union leaders to attempt to operate such a policy. That was the responsibility of the Government. A statutory policy would be opposed by the TUC and would lead to a severe strain upon the Government's relations with the trades union movement; but there were millions of trades unionists awaiting a lead in the form of a policy which would apply to everybody. The Government should appeal to the rank and file in the unions over the heads of their leaders. It was true that any adoption of a statutory policy would be a breach of the election Manifesto; but the same was true of all the available alternative courses. If it were argued that the miners' attitude would be a fatal obstacle to a statutory policy, the answer was that the position was no different with a voluntary policy, since in either case the Government would have to face up to strikes. It would be worth while considering some form of flexibly-applied permanent statutory policy which could be used to move towards a more egalitarian society.

If a voluntary incomes policy were to be successful, the Government in its role as employer would have to hold a hard line; this would be seen by public sector employees as discriminatory and equivalent to a statutory policy. There would be industrial disputes with the risk that much public administration would collapse, especially in the field of social security. It was doubtful, therefore, whether a voluntary policy could be delivered even by the Government, who would be forced to make concessions going beyond the guidelines simply in order to keep essential administration going. If this were
so, then a statutory policy was the only alternative, providing some system could be found to penalise excessive settlements. A voluntary policy would not be convincing either at home or abroad; and the urgency was such as to leave no time for gradualism.

Against this it was argued that no satisfactory sanctions could be devised to enforce compliance with a statutory policy. One form which these might take would be to make it illegal for employers to pay more than the level laid down in the guidelines; but it was admitted that this had the serious disadvantage of leaving the employer exposed to strikes causing him severe financial damage when he was simply seeking to comply with the law (although it might be possible to devise a scheme for reimbursing firms from Government funds for losses arising from standing firm against a wage claim in excess of the statutory limit). Under the previous statutory policy no prosecution had ever taken place; and had a prosecution been brought and fines imposed but not paid, it was difficult to envisage what would have followed thereafter. Legal sanctions through the Courts were not a productive way of proceeding. A statutory policy was not a way out: it would require consent just as much as a voluntary policy, and in this connection the TUC document was a remarkable step forward. To get consent the Government had to win the argument. This was not something the Government could leave to the TUC. It was for the Government to win support for the kind of policy the TUC were now considering. This called for an orchestrated effort on the part of all Ministers. Sanctions of a legal kind were useless. The true sanctions on failure - rising unemployment, public expenditure cuts - had already arrived. What was necessary was to make the ordinary worker feel that he would be worse off simply chasing paper increases in his pay. He must realise the danger that unemployment could hit him, that he would lose part of the social wage, or that continuing inflation would render any wage increases he could get useless. A statutory policy which would split the Party and require Opposition support to get it through Parliament would not work and was the route to coalition; but a voluntary policy needed consent which the Government would have to win.

In further discussion it was argued that it was crucial that the policy adopted should be a joint Government/TUC/CBI policy. There should be a numerical target for price inflation and some clear way of measuring whether any particular settlement was within or outside the guidelines needed to achieve that target. An independent body was needed to ensure that such judgments were quite unambiguous. There might also be a need for an independent body to deal with anomalies. It might be that such a body could be allowed to authorise settlements beyond the guidelines, up to some previously fixed total for the country as a whole; and it might also provide a degree of cover for the Government when, as might well be necessary in some cases, a compromise had to be reached.
It should be made clear to the TUC that if after 6 months, say, their policy was not succeeding then the Government might be forced to bring forward a statutory scheme. They would also have to allow a massive increase in unemployment although on recent experience it was far from clear what level of higher unemployment, and for how long, would be needed to have the required influence upon wage settlements. Against this it was maintained that unemployment was not an alternative to an effective incomes policy. Unemployment was an effect of inflation, and it was not conceivable that any short term level of unemployment would have the effect upon pay settlements which was required. There should be no question of the Government presiding over a policy of unlimited unemployment. As in the 1930s, the country was facing a slump; but it was doing so at a time when people were no longer prepared to accept the consequences of a slump in terms of unemployment, and a policy which relied upon rising unemployment was not acceptable.

In continuing discussion the following main points were made -

a. One difficulty was that the British people, even if they appreciated intellectually the effects which inflation could and would have, did not have the same emotional involvement as was the case in Germany: the reverse was true of unemployment. For this reason it would be difficult to get the consent which was essential if a satisfactory policy were to be followed. One possibility which might make a flat rate cash sum more acceptable as a norm would be to announce that it would be tax free, while any payment in excess of that flat rate would be taxable in the ordinary way.

b. The Government and the nation had to recognise that there had been a shift of power to the trades unions and to multi-national companies. In time, as these transfers of power became formalised, the Government would have to come to terms not just with the TUC but with the shop stewards. What trades unionists wanted was, not just wages, but a full and active part in the management of industry; and the survival of the Government depended upon a creative relationship with the trades unions right down to the shop floor level.

c. It was crucially important to get the truth of the present situation across to the country. To achieve this it would be necessary to establish a high-powered public relations unit to plan a publicity campaign so as to make clear what would happen to unemployment, investment, the social wage and living standards generally if an excessive level of wage increases continued, and what benefits restraint would bring. Such a unit could organise speeches, graphical material, draft a White Paper and so on. This would help to create the attitude of mind amongst the public which would be receptive to the tough policies needed.
d. There should be a stringent control of top salaries. The Government had been mistaken in its acceptance of the last proposals by the Top Salaries Review Body.

e. One difficulty of a voluntary policy would be the problem of the low paid. The first test of such a policy would in fact come with the first two large groups in the next pay round, the Local Authority manuals and the National Health Service ancillaries, all of whom were affected by the TUC low pay minimum target. If this meant settling at, say 30 per cent, this would set the tone for the whole of the subsequent round - even though in later settlements the low pay element was absent. It might be that low pay could not be satisfactorily dealt with through collective bargaining, and it was worth considering whether the Government should not undertake to deal with the low pay problem - for example by means of family allowances - leaving collective bargaining to settle normal increases.

f. On timing, it was noted that in the first week of July the national conference of the National Union of Mineworkers would take place. Mr McGahey had already endorsed the claim of £100 a week, equivalent to a 63 per cent pay claim, and this could easily become the official union claim. It was therefore urgent to put the gravity of the situation to the TUC at once; they must be made aware that excessive wage claims could lead to the closure of uneconomic pits.

g. If there were to be a serious run on sterling brought about by inflationary wage settlements for the more powerful groups of workers, then the result would be unemployment amongst the poorer sections of the community with less bargaining power.

h. Even the TUC document showed signs that the authors did not yet fully comprehend the difficulties of the present situation. Thus, it said that not enough had yet been done on prices, whereas the Secretary of State for Prices and Consumer Protection had made it clear that there was no room to squeeze prices further. The document looked for further improvements in the social wage, and for improvements in the operation of the national insurance and supplementary benefit rules, all of which could only lead to higher public expenditure, which was equally unacceptable; and it called for defence cuts going beyond those the Government had recently decided to be the maximum possible. All of this was wanted as the price for a 15 per cent norm which was itself probably too high.
While the case against a statutory policy was a powerful one, the possibility of a run on sterling was such that a contingency plan for a statutory policy should be prepared so as to be available for use as necessary.

Finally it was argued that presentation of the choice as between a statutory and a voluntary policy tended both to polarise and to over-simplify the argument. The Government must try to reach agreement with the TUC but in the last resort could not shrink from taking whatever action was necessary. If however adequate sanctions could be found (eg through cash limits, suspension of the review bodies, the price code etc, even though some of these might themselves require legislation) it might be possible to provide sufficient back-up for a policy which was itself based on collective bargaining.

THE PRIME MINISTER, summing up the discussion, said that, although final decisions could not be taken at this meeting, there seemed to be a consensus in the Cabinet that the aim should be to achieve a wages norm of 10 per cent (or its equivalent) from the beginning of the next pay round. A statutory policy would be highly divisive and there was strong support for a determined effort to make a voluntary policy work. This meant the Government playing an active role along with the TUC, but the TUC must be warned of the consequences if a voluntary policy did not succeed. It would be important to use Ministerial speeches, perhaps a White Paper, and other forms of publicity to bring home frankly to the country what the situation was; and also to indicate what might be done by positive Government action to stimulate industrial investment if only inflation were checked. If a voluntary policy were to be successful, the Government would have to accept its responsibilities in relation to the public sector. This could involve eg the temporary suspension of pay comparability and the review bodies in respect of their own employees and the introduction of cash control of wages for other public sector bodies. In this connection some means would need to be found of putting discipline upon local authorities. A voluntary policy would certainly need some monitoring arrangement whereby individual settlements could be seen to be within or beyond whatever general guidelines or norm might be adopted: this might be discussed with the CBI and the TUC. The time within which a new policy had to be devised and agreed was severely limited. At the moment the onus lay primarily on the TUC, and they should be asked what kind of supporting action they wanted from the Government; but if the TUC failed to agree upon an effective policy, then the Government would have to consider unilateral action as a matter of urgency.
The Cabinet -

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

2. Invited the Chancellor of the Exchequer, and the Secretaries of State for Employment and for Prices and Consumer Protection to be guided accordingly in their meeting with representatives of the Trades Union Congress later in the day.

Cabinet Office

24 June 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 26 JUNE 1975
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

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 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 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 Eric Varley MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

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 Fred Mulley MP
Secretary of State for Education and Science
The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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
Sir Patrick Nairne (Item 2)
Mr P Benner (Item 1)
Mr T F Brenchley (Item 2)
Mr E J G Smith (Items 1 and 2)

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

The Cabinet were informed that, since it would not be possible for the Aircraft and Shipbuilding Industries Bill to become law during the present Session, the Secretary of State for Industry proposed, after his forthcoming meeting with representatives of the Trade Unions concerned, to make a statement in the House indicating that the Bill could not proceed this Session because of the very heavy pressure on Parliamentary time. The statement would however emphasise that the Government attached the greatest importance to it and would give it high priority in the next Session. In the light of this there were strong arguments against proceeding with an early Second Reading. A final decision about this should however depend on whether other ways could be found to end the uncertainty which was at present delaying investment decisions in the industries, and to enable the trade unions to bring forward the proposals which they had intended to put to the Organisation Committees which would be set up after the Bill received its Second Reading.

THE PRIME MINISTER said that the report of the Top Salaries Review Body (TSRB) which he had recently received recommended very substantial increases in the pay and allowances of Members of Parliament. He had discussed its handling with the Ministers immediately concerned and the main conclusion reached was that the Government’s response to the report could not be settled until their overall anti-inflation policy had been agreed. It was clear that the pay of Members of Parliament could not be considered in isolation, and that whatever national guidelines emerged would almost certainly have to apply also to Members of Parliament. Allowances were however in a different position and here it should be possible to take a much more sympathetic attitude to the TSRB recommendations. The immediate problem was the timing of publication of the report. The choices were, first, to publish now without comment; second, to publish now with a Government statement indicating that though the recommendations dealing with allowances could be considered as they stood those on pay would have to be modified in the light of whatever national pay guidelines were agreed; and third, to postpone both publication and statement until the national package had been settled. The third option would involve holding back the report until the second half of July.
In discussion there was general agreement that it would be undesirable to publish the report without a substantive Government statement. In favour of early publication, it was argued that a statement on the lines proposed by the Prime Minister would be well received by the public and would be understood by Members of Parliament (though the position should of course be explained in advance to Government backbench supporters). And the longer the report was held back the greater the danger of a serious leak - it was significant that some information about recommendations already appeared to be circulating. On the other hand it was argued that until an overall anti-inflationary package had been agreed it was doubtful whether a time could be found for publication which would not involve some danger of prejudicing discussions with the interests concerned; and this should be regarded as the over-riding consideration. It was however suggested that publication on the same day as the national guidelines were announced would be open to the particular objection that it would then scarcely be possible to allow to Members of Parliament a greater pay increase than was strictly permitted by the national guidelines; but on merits there was a good case for allowing them more - though not the full TSRB recommendation - having regard to the fact that their pay had been unchanged for 3½ years and that they were therefore one of the very few groups which had received none of the pay increases which had been permissible under the various incomes policy provisions which had applied during that period. In consequence a number of Government supporters were suffering genuine financial hardship.

In further discussion, the following points were made:

a. There was a strong case for Members' secretaries to be paid by the Government or by the House authorities, rather than by Members themselves. The present arrangements were unsatisfactory in that they were open to abuse yet did not remove the possibility of some Members being substantially out of pocket.

b. It was questionable whether the Government should accept the TSRB recommendation that Members' pay should not be linked to that of an agreed analogue (for example, Civil Service Assistant Secretaries or a House of Commons official grade) but instead be reviewed every two years. It was doubtful whether the Review Body system worked to Members' advantage, because the time was almost never ripe for agreeing the substantial pay increases which could be expected to result from reviews made at relatively long intervals.
THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that it would be undesirable to publish the report without a statement by the Government. They had however not decided whether the balance of advantage favoured early or later publication, and the discussion would be resumed at their meeting in the following week. If however there were before then a serious leak of the report's recommendations, a decision whether to publish at once, and if so what should be said in the accompanying statement, would be taken by himself in consultation with the Lord President of the Council, the Foreign and Commonwealth Secretary, the Home Secretary, the Chancellor of the Exchequer, the Secretary of State for Employment and the Chief Whip. The Lord President should keep in mind what had been said in the course of discussion about arrangements for meeting the cost of secretarial services and about the TSRB's decision to recommend that Members' pay should not be linked with that of some outside analogue.

The Cabinet -

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

THE CHIEF WHIP reported that the Chairman of the Parliamentary Labour Party (PLP) and he had drawn up a list of Labour Party nominations for the European Assembly. The list had been discussed in the Liaison Committee and would be put to a meeting of the PLP that afternoon. The list of nominations had been designed to provide a strong representation. Although, on Committee of Selection criteria, the Labour Party were strictly speaking entitled to 19 places in a total British delegation of 36, it had been decided to put forward 18 nominations, 6 of whom were peers. Using the same criteria, the Liberal Party would be entitled to 1 place in the delegation and other minor parties to 1 place. The Liberal Party had made representations that they should retain their existing 2 places but he had made plain that this would require a reduction in the 16 places allocated to the Conservative Party.

In discussion it was suggested that although with the addition of 18 Labour Party members the Socialist group would become the largest group in the European Assembly, there was a possibility that the Conservative and the Christian Democrat groups in the Assembly might combine, and so equal the Socialist group augmented by 18 Labour Party members. It might therefore have been preferable to insist on the full 19 Labour Party places, to ensure that the Socialist group was strongly placed to obtain Committee chairmanships. However this possibility had become apparent only after the basis of allocation of places had been settled in discussion with the other parties.
THE PRIME MINISTER, summing up a brief discussion, said that the list of nominations as drawn up by the chairman of the PLP and the Chief Whip, and approved by the Liaison Committee, should be submitted to the meeting of the PLP that afternoon.

The Cabinet -

2. Took note.
2. THE FOREIGN AND COMMONWEALTH SECRETARY informed the Cabinet that, following the independence of Mozambique, he planned to announce the end of the Beira patrol. This decision had been taken in the knowledge that the Mozambique Government would not allow oil to pass through its territory to Rhodesia, although it was doubtful whether any formal undertaking to this effect could be given.

The Cabinet -

1. Took note.

THE FOREIGN AND COMMONWEALTH SECRETARY said that President Amin had told General Sir Chandos Blair on his departure that the British community in Uganda would now be watched as potential spies. The next morning he had summoned the staff of the British High Commission to his presence and it was feared that he might be intending to imprison or deport them. However, in a typically unpredictable manner, he had received them cordially and had handed over to the Acting High Commissioner his second message to The Queen. This had proved to be slightly more conciliatory than his first message. The Prime Minister had accordingly sent him a further message, building on these conciliatory elements and repeating that provided Mr Hills was reprieved, the Foreign and Commonwealth Secretary was ready to go to Uganda and discuss the whole range of issues between the two countries. This message had been made public by Radio Uganda, which was an encouraging sign. There was now some pressure on President Amin and we awaited his response.

The Cabinet -

2. Took note, with approval, of the statement by the Foreign and Commonwealth Secretary.

THE FOREIGN AND COMMONWEALTH SECRETARY reported that the problem which had arisen over the import of beef from Botswana into the European Community had been satisfactorily settled at a meeting of the Council of Ministers earlier in the week.

The Cabinet -

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

Cabinet Office
26 June 1975