CABINET

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Cabinet Office,
January 1976.
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on

TUESDAY 1 JULY 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

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 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 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 Fred Peart MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Lord Shepherd
Lord Privy Seal
SECRETARIAT

Sir John Hunt
Mr J A Hamilton
Mr J A Marshall

SUBJECT

COUNTER-INFLATION POLICY
The Cabinet discussed counter-inflation policy. Their discussion and the conclusions reached are recorded separately.

Cabinet Office
1st July 1975
The Prime Minister explained that a small group of Ministers had met the previous day to consider what action might be needed in the light of the very serious turn of events in the foreign exchange markets. They had agreed that if confidence were to be maintained in sterling it was essential that a short statement be made in the House that afternoon, saying that the Government's counter-inflation measures were in an advanced state of preparation, outlining what these might be and making clear that firm proposals would be published within the next few days.

The Chancellor of the Exchequer said that the Cabinet had recognised at its meeting on 20 June that a counter-inflation policy had to be prepared quickly, but they had always been aware that events might overtake even the rapid timetable to which they had been working. Sterling was now crumbling, and the Government would have to take decisions and announce them that day if a further, rapid, deterioration in the situation were to be avoided. The rate of exchange against a 'basket' of other currencies had been slipping gradually ever since the last quarter of 1974, but recently the decline had accelerated. In April and May it fell by 4 per cent; in the first three weeks of June it fell by a further 4 per cent; and on the previous day alone it had fallen by 1 per cent. Up to the end of 1974 its fall had been with the dollar; and this had meant that the oil producing countries had no incentive to transfer their funds from London to New York. Now the rate was going down against the dollar, and at 9.15 that morning the dollar rate stood at 2.1740 compared with a rate of 2.2248 on the previous Friday. Among the big sterling holders, Nigeria had indicated a month previously that they were planning to diversify their holdings; the Kuwait Government had said that they would begin to move funds when the rate fell below 2.20; and the Saudi Arabian Government had said that they would start to move funds once the rate was below 2.17. The Government was therefore faced with the risk of a massive withdrawal of funds and if action were not taken the rate would drop further still. This would have an adverse effect upon
inflation, since every 5 percentage points depreciation in the rate of exchange led to an increase of about 1 per cent in domestic prices - especially food - about six months later. There were $6,000 million in the reserves, of which $5,000 million were needed for current liabilities. Any further drain would mean borrowing from the International Monetary Fund, who, after the first, limited, tranche, would certainly require not only an effective incomes policy but also deflationary action and heavy cuts in public expenditure as the price of further assistance. Cuts in public expenditure would not help the inflationary situation, but would certainly lead to additional unemployment. It was therefore imperative to announce that afternoon how the Government proposed to deal with cost inflation and incomes.

Enormous progress had been made with the Trades Union Congress (TUC). Although the General Council had so far only asked the Economic Committee to consider the proposals in the paper circulated as C(75) 67, both Mr Len Murray and Mr Jack Jones had committed themselves to getting inflation down to a level which was roughly the same as that which the Government had in mind and also to relating pay increases to that target. Such a policy would probably get a two-to-one endorsement on the General Council. It would be possible to demonstrate to the TUC that such an inflation target required keeping pay increases down to 10 per cent, or about £6 at a flat rate. The problem was how to convince opinion both at home and abroad that such a "norm" would be observed, the TUC having the previous year committed themselves to easier guidelines which many of their constituent members had ignored. This year the situation was even worse in that some unions had already rejected the idea of pay restraint at all. How then could compliance be achieved? He had considered various sanctions. In the public sector it would be possible to establish cash limits for nationalised industries and local authorities, and require the cost of any excessive pay settlement to be offset by cuts in other expenditure. This might require legislation. For the private sector, it would be possible to amend the Price Code so as to disallow for price increase purposes the cost of any excessive pay settlement; but this was likely to have little or no effect on capital intensive industries and on those engaged primarily in exports. He doubted whether a voluntary policy, coupled with financial sanctions of this kind, would carry the conviction needed to stop further loss of confidence in sterling. He considered therefore that it would be essential for the Government to say that they proposed to take action to make it illegal for employers to pay more than the norm. If this were done the overwhelming majority of employers would comply with the law. He was not proposing legal sanctions on the workers. His impression was that, while the TUC could hardly be expected to approve such a policy, they would wish to see the Labour Government survive, and, in spite of criticising them, would do their best to make the policy work.
In discussion it was argued that the proposal put forward by the Chancellor of the Exchequer presented great difficulties. Making any norm into a legal limit was something which would be strongly opposed by the whole trades union movement. It bore all the hallmarks of a policy thought up hurriedly and without adequate consideration of all the difficulties and anomalies to which it could give rise. It was not proposed to use criminal sanctions against workers; but once started on the statutory road, no-one could be sure how things would develop. If there were a legal limit, and the coal miners went on strike against it, it would in effect be a strike in defiance of the law. Furthermore there would be grave difficulties over the transitional period, not only with the seamen who were awaiting the results of arbitration, but other groups, such as the police, who had already made a settlement above 10 per cent to start in September, and post office workers who had a forward indexation provision in their last settlement. It was not in fact possible to draw a clear distinction between the two pay rounds. Any anomaly could lead to industrial action in a situation where the Government would have no sympathy from the TUC, who would certainly be opposed both to the general policy and to the particular level of wage increase contemplated. If negotiations with the TUC could continue, there was a chance that agreement might be reached on, say, a 12\(\frac{1}{2}\) per cent norm, which would not in practice be so much different from a 10 per cent one as to justify putting at risk all the goodwill and co-operation that might be lost by going for a statutory policy. In effect, the proposal was that there should be a wage cut, with no discussions and no advance preparation. Such a policy might collapse in the outcry which it would provoke. It was essential to continue discussing the problem with the TUC.

Against this it was strongly argued that, desirable as an agreement with the TUC would be, there was no prospect of getting one since the Government would not be able to concede the quid pro quo which the TUC, judging by the document circulated as C(75) 67, would be likely to demand. There had been a considerable change in the mood in the country, and the overwhelming weight of opinion amongst the general public and amongst ordinary trades union members was by no means identified with that of the TUC and the union activists. In favour of making an early statement it was argued that the situation was extremely serious - more so than in 1966-67 - and unless control was re-established the Government might be destroyed. Indeed the hyper-inflation that would follow a collapse of sterling could lead to the total destruction of the value of the currency and of society itself. Even if the support of the TUC could be obtained - and this was by no means certain - there simply was not time. What was needed to stop the slide on the foreign exchange markets was an unambiguous statement of the Government's determination to control pay increases. This would provoke a strong challenge from the trades union movement, and the Government would have to face a very difficult period. Nevertheless, to delay the statement till later could precipitate an irretrievable situation. It had to be recognised however that the worst
situation would be a statement which failed to stop the outflow, so that the Government were then compelled to return within days to make a further, and much tougher, statement.

Against making a statement that day it was argued that it was not yet clear that such a move was in fact necessary. If it were, it was questionable whether anything which the Government could say would in fact hold the rate. Alternative courses which might be examined included the possibility of giving sterling guarantees to the major holders, a possibility which should certainly be examined before adopting an incomes policy which would divide the Labour movement. Such guarantees would, however, be likely to be extremely costly, and it was improbable that they could be confined to the major holders only. Another alternative course was to allow the rate to continue to fall until it found the level at which market forces would push it up again. It was accepted that this could involve a very difficult period for the country, but equally so the proposal by the Chancellor of the Exchequer was in effect to put into reverse the whole strategy and philosophy of the Government just at the moment when responsible trades union leaders were making dramatic moves to achieve a voluntary incomes policy.

In further discussion it was argued that, if there were to be a statement that afternoon, it was important that it should say clearly that 10 per cent or equivalent was the maximum pay increase which the Government had in mind, together with some reference to prices and price control, although the latter would need to be touched on only lightly in view of the need to avoid a further squeeze on profits and a consequential adverse effect on investment prospects. On the question of sanctions, it could be said that the Government had a formidable battery of sanctions, some financial and some statutory, already at its disposal, and would be prepared to take further powers if necessary. While the statement would make it clear that excess settlements in the public sector would mean cuts in other expenditure, it should not be ruled out that the available wages fund might be allowed to be higher if genuine productivity could be achieved or reductions in overmanning. It was important that the statement should make an impact on foreign opinion, but it was suggested that it might avoid detail on either prices or wages and take the form of a general statement of intention and determination. The inflation target could be given, together with an assurance that the Government would take all appropriate measures to achieve it, and was even now discussing the problems of wages and prices with both sides of industry. Precision about objectives and targets rather than about means would avoid giving hostages to fortune. Against this it was suggested that such studied vagueness could be both ineffective in helping the exchange rate and arouse the worst suspicions of the trades unions. In fact both the Chancellor of the Exchequer and the Prime Minister had already, in public speeches, referred to the inflation target, without any visible effect on foreign opinion. It
might be possible to say that the Government were determined to control pay increases, and explain in general terms how this might be done, but to add that the Government would seek to achieve this by voluntary means, but would take reserve powers for use in case this failed. Another possibility might be to say that the Government would discuss the possibility of a voluntary policy further with the TUC, but that if they could not show within a matter of days that an effective agreement could be reached, then the Government would be prepared to take legislative powers. On the other hand, there was much to be said for the view that if there were a statement containing some reversal of present policy, that reversal should be total and complete, since a partial retreat would only provoke pressures which would eventually force the Government further along the same road. Whatever the formula adopted it should be made clear that a major purpose of the policy was to remove the disabling effect of inflation on the Government’s ability to stem the increase in unemployment. The statement should also emphasise the importance of a policy of this kind in protecting those least able to fend for themselves.

In the course of discussion the following further points were made:

a. Any question of imposing criminal sanctions against workers should be completely ruled out. Not only would this provoke strong opposition from the trades union movement, but it would also be quite impracticable to operate.

b. The use of the Prices Code to discourage excessive wage settlements, for example by disallowing the cost of the excess for price increase purposes, would have little effect upon capital-intensive industries, where wage costs were a small proportion of total expenditure or in exporting industries, where the Prices Code did not apply. This meant that such industries would have little incentive to resist excessive settlements, and once they had been made comparable workers in other industries would seek parity of treatment. This argued for legislative controls over employers. One possibility would be to use the Prices Code as a sanction by allowing no price increase for 6 months (compared with the usual 3 months) where an excessive settlement had been agreed.

c. Rents presented a difficult problem, and the right solution might be to relate rent rises to the wages norm.

d. It should be possible to restrict assistance under Sections 7 and 8 of the Industry Act to those firms who observed the pay policy, and to refuse it to others.
e. One possible alternative course would be to impose a total freeze on prices and wages for a limited period, thus buying time to think out the details of a longer term policy. The disadvantage of this was that it would not restore foreign confidence since it would imply that the Government had not yet found a solution.

f. There would no doubt be pressure from some quarters for a further cut in public expenditure designed to reduce the size of the public sector borrowing requirement. This should be met by referring to the cash limits which it was proposed to impose upon the nationalised industries and local authorities, and to the extension of the system of cash control for public expenditure where this was appropriate. It might also be possible to indicate that the stringency applied to public sector spending in 1976-77 would be extended to later years.

g. The comparisons which had been made with 1966 and 1972 were not apt. The true comparison was with 1931. What was now contemplated was a real cut in wages, a policy which would not command TUC support. No policy could be made to work without trade union goodwill. The policy which had been proposed would be profoundly damaging to the Labour movement. A 10 per cent norm would be difficult to justify to low-paid groups of workers, such as the National Health Service ancillaries. They would have suffered 25 per cent erosion of the value of their pay since their last settlement, and over the coming 12 months might suffer a further erosion of 12½ per cent. Against this total erosion of 37½ per cent, they were to be offered compensation of only 10 per cent. The only answer to this was that they would have received a considerable boost at their last settlement, so that their subsequent decline was from a high point.

h. A 10 per cent norm would, if fully applied, and assuming no large-scale withdrawal of savings, lead to a deflationary effect of some £300 million, equivalent to an addition to unemployment of some 30,000. However, in such a situation drawing on savings was likely to occur; and success with the inflation rate could increase exports and investment and thus add to employment, perhaps sufficiently to offset the adverse effects.

THE PRIME MINISTER, summing up the discussion, said that the strong balance of opinion in the Cabinet was in favour of a statement being made that afternoon. They were more evenly divided on what such a statement should contain. But if an early statement was to be made it was essential that it should be framed to have the best possible chance of dealing with the crisis of confidence in the foreign exchange markets and also of keeping open the possibility of reaching an
agreement with the TUC. It should therefore begin by stating firmly the complete determination of the Government to deal with the situation, indicating that the Government's target was to get the rate of domestic inflation down to 10 per cent by the third quarter of 1976, and down into single figures by the end of 1976. The importance of this for the housewife and for social security beneficiaries should be stressed. Furthermore, it should indicate that this would require that pay increases be kept within a maximum of 10 per cent (or its equivalent) for the whole of the coming pay round. The statement would say the Government had reached an advanced stage in working out a policy to deal with the situation, and that consultations had begun with the TUC and CBI. The policy would have to cover the range of sanctions open to the Government, including the use of the Prices Code, the imposition of cash limits on nationalised industries and local authorities to ensure that the cost of any excessive pay settlements had to be met from expenditure cuts elsewhere and not from additional subsidies, increased borrowing or higher charges; and the limitation of dividends. It should be made clear that, while the Government would greatly prefer to proceed on the basis of a voluntary policy agreed with the Confederation of British Industry (CBI) and the TUC, if an effective agreement could not be obtained on the basis of the Government's targets by a very early date, then the Government would be obliged to legislate to impose a requirement on both public and private sector employers to comply with the 10 per cent limit on wage increases.

He proposed that the Cabinet Secretariat should be instructed to prepare a draft on these lines, which could then be considered immediately after lunch by a small group of Ministers consisting of himself, the Lord President, the Chancellor of the Exchequer and the Secretaries of State for the Environment, Employment, Prices and Consumer Protection and Trade. After the statement had been made, work should proceed rapidly to draft both the legislation which would be necessary if agreement could not be reached with the TUC, and the White Paper which would be needed in any event.

The Cabinet -

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

2. Instructed the Secretary of the Cabinet to prepare a draft of the statement on the lines indicated in the summing up.

Cabinet Office

2 July 1975
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 Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Edmund Dell MP
Paymaster General (Item 4)

Mr Alan Williams MP
Minister of State, Department of Prices and Consumer Protection (Item 4)

SECRETARIAT

Sir John Hunt
Sir Patrick Nairne (Item 2)
Mr P Benner (Items 1, 3 and 4)
Mr T F Brenchley (Item 2)
Mr E J G Smith (items 1 and 2)
Mr A D Gordon-Brown (Item 4)

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CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 3 JULY 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 Marilyn 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 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 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 Fred Mulley MP
Secretary of State for Education and Science

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Edmund Dell MP
Paymaster General (Item 4)

Mr Alan Williams MP
Minister of State, Department of Prices and Consumer Protection (Item 4)

SECRETARIAT

Sir John Hunt
Sir Patrick Nairne (Item 2)
Mr P Benner (Items 1, 3 and 4)
Mr T F Brenchley (Item 2)
Mr E J G Smith (Items 1 and 2)
Mr A D Gordon-Brown (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. At this stage of the Session it was inevitable, if unfortunate, that provision had had to be made for three Supply Days. The Parliamentary Secretary, Treasury, had given evidence to the Procedure Committee about the substantial number of Supply Days which had to be accommodated within a Session, but the Committee's report had not yet been received.

It was reported that it was not proposed to move a timetable Motion on the Employment Protection Bill, since it now appeared that there had at an earlier stage been written agreement with the Opposition on an informal timetable. The Bill's prospects seemed reasonably good, and the Lord President of the Council and the Parliamentary Secretary, Treasury, would keep a close watch on its progress. The Cabinet noted that the debate on 7 July on a Private Member's Motion about a United Kingdom Bill of Rights would need to be handled with some care and sympathy, in particular because of the implications for Northern Ireland.
2. THE FOREIGN AND COMMONWEALTH SECRETARY said that President Amin had announced that President Mobutu of Zaire would act as an intermediary in all dealings between the United Kingdom and Uganda. This was not an arrangement which could continue for very long, but he had sent President Mobutu a telegram expressing his gratitude for the intervention which had led to the reprieve for Mr Hills, and putting three questions that arose immediately. These were, what he understood Mr Hills' fate would now be; whether he had any information about the two Britons whom President Amin claimed to have arrested; and whether there was now any need for him to visit Kampala. He had it in mind also to raise through President Mobutu the question of the future of other British subjects in Uganda.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the visit to Rhodesia of the Minister of State for Foreign and Commonwealth Affairs (Mr Ennals) had been useful. He had formed the impression that both Mr Ian Smith and the African National Council (ANC) wanted serious negotiations. The differences between them were however still very wide. Rivalries within the ANC were also complicating the issue. It was possible that these might be resolved at a meeting which members of the ANC would be having with other African leaders in Lusaka. We should await the outcome of this meeting before considering the next steps.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
3. The Cabinet resumed their discussion of the handling of the report of the Top Salaries Review Body (TSRB) about the pay and allowances of Members of Parliament.

THE PRIME MINISTER said that he had the previous evening met representatives of Government backbench supporters, who had strongly urged that the Government should reach an immediate decision on their attitude towards the Review Body's recommendations and make a very early announcement. They felt that an immediate increase in pay was essential in order to relieve the serious financial hardship which some Members were suffering. It was clear that feeling was running high and that many Government supporters were in a rebellious mood. There was a genuine danger that in the absence of an early announcement of increases in Members' pay there would be abstentions, or even hostile votes, which could imperil the Government's position in Parliament.

In discussion there was endorsement of the Prime Minister's assessment of the state of Parliamentary opinion. Not only were some Members suffering real hardship: they were also being required to work under unprecedented pressure because of the excessive demands of the current legislative programme. The dangers of rebellion or non-co-operation were real.

In further discussion it was argued that, although the state of opinion amongst Members made an increase in pay inevitable, it was out of the question in present circumstances to accept in full the TSRB recommendation in respect of the salary element. The proposals on allowances could, however, be agreed. The compromise which had the best prospect of pacifying Members without seriously imperilling the development of the Government's counter-inflationary policy would be to increase the salary element to about £6,000 a year; and this might be justified by reference either to the increase in the retail price index which had occurred between the last pay increase and the cut-off date which would form part of the counter-inflationary package to be announced shortly, or to the application to Members of Parliament of the successive pay increases which had been permissible under the various provisions of incomes policy which had applied during that period. For the immediate future, the policies which were now being worked out would apply to Members of Parliament as to all other people; but it was for consideration whether the Government should indicate that for the long term they accepted the full TSRB recommendations in principle.

In discussion of the timetable for publishing the report and announcing the Government's attitude, it was argued that, although the discontent produced by delay in announcing a decision would involve serious Parliamentary risks, it would be even more dangerous
to announce a decision while the current discussions with the Trades Union Congress (TUC) and the Confederation of British Industry were in progress. The next few days were crucial to the possibility of achieving agreement on voluntary measures, and it would be folly during that time to do anything which would worsen the atmosphere in which discussions were taking place. This pointed strongly to deferring any announcement about Members' pay until the discussions with the TUC had been completed. In any case, it would be necessary to inform the TUC in advance of the line which was to be taken. Presentationally it would be undesirable to deal with Members' pay as an isolated issue; and the announcement should therefore present the Government's decision on it in the context of their conclusions on the wider question of the principles which should determine the handling of the remainder of the current pay round and outstanding arbitration and other special cases (including the salaries of the Chairmen of nationalised industries). Policy on these matters must be settled very urgently. And the public acceptability of a pay increase for Members of Parliament would be greater if arrangements could be made for individual Members to indicate to the Press in detail the nature and severity of their financial problems. It would also be presentationally helpful, both in relation to Members' pay and more widely, if it could be indicated that members of the Cabinet and possibly other Ministers - who, unlike other Members of Parliament, had enjoyed a recent salary increase - were prepared to accept a cut in their total emoluments. If such a cut were made, it would be necessary to consider whether anything could or should be done to safeguard Ministers' pension rights; and a similar question would arise in relation to Members of Parliament generally to the extent that the full TSRB recommendations were not accepted.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that he should later the same day announce, in reply to an inspired supplementary to one of his Parliamentary Questions, that the TSRB report would be published in about ten days time, and that the Government's attitude towards its recommendations would be announced at the same time. He would explain that it was necessary to consider the recommendations in the context of the Government's decisions as to the principles which should determine the handling of pay claims outstanding from the current pay round, of claims which had gone to arbitration and of any other anomalous cases; and that, since consideration of the report had necessarily taken some little time, any increases that were agreed would be payable from 13 June, the date when the TSRB report was signed. He would seek to arrange a further meeting with Government backbench supporters before answering the Question. On the substance of the matter, the Cabinet agreed that the TSRB recommendations on allowances should be accepted in full, and that for the time being the salary element should
be increased to about £6,000 a year. The latter could be justified in terms both of increases in the retail price index and of the successive provisions of incomes policy during the relevant period.

Urgent consideration should now be given in the context of the current work on counter-inflationary policy to the attitude to be adopted towards claims outstanding from the present pay round, and also to the question whether there should be a cut in Ministers' emoluments. The Cabinet would resume discussion of these matters during the following week. Consideration should also be given, though in a longer timescale, to measures to protect the pension rights of Ministers and Members, and to the desirability of exploring with Members of Parliament the establishment of a link between their pay and that of some outside analogue - for example, a House of Commons official grade. But in the meantime it should be made clear that the Government were not seeking to reject the TSRB recommendation that there should be biennial reviews.

He would arrange for circulation to the Ministers concerned of information about the measures which he had put in hand to ensure that Political Advisers were treated comparably with permanent civil servants.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
4. The Cabinet considered a memorandum by the Lord President of the Council (C(75) 73) on the legislative programme for 1975-76.

THE LORD PRESIDENT OF THE COUNCIL said that the heavy programme of legislation in the current Session was causing an intolerable strain on Members and had brought the printing arrangements near to breakdown. He nevertheless hoped it would be possible to get to Royal Assent all the Bills which had been introduced, except the Aircraft and Shipbuilding Industries Bill; but some major Bills still had a long way to go. His plan was that both Houses should return for an extended spillover of about four weeks on 13 October, with the new Session starting in the week beginning 10 November; and it would be necessary to sit for a few days in the week beginning 4 August. It was essential to avoid a repetition of the present difficulties during the next Session. The Queen’s Speeches and Future Legislation (QL) Committee had accordingly applied five criteria in deciding the claims of each Bill for a place in the programme: whether it was essential to the Government’s economic or social strategy; public expenditure and manpower implications; electoral desirability; the need to legislate in 1975-76; and the Bill’s state of readiness. These criteria could be reduced to a single criterion — whether enactment next Session was vital to the Government as a whole, for political, economic, social or other reasons. No Bill which did not pass this test should find a place in next Session’s programme; and indeed there were positive arguments for keeping some attractive legislation for the following Session. The list of Programme Bills in Appendix III of his paper represented a programme of realistic size which would take up all the Parliamentary time available, and it should not be enlarged.

In discussion of the pressure on Parliamentary time and the size of the programme, the suggestion was made that the Session should be extended and that the need for annual Sessions should be looked at afresh. It was pointed out, however, that the Session might have to be extended until April if there were an autumn Budget, and that an extension would cause problems over Private Members’ Bills and Supply. Some of the difficulties over Parliamentary time were caused by Bills not being ready until late in the Session, and by the introduction of a high proportion of Bills in the House of Commons. It was also suggested that the shortage of Parliamentary time was a self-inflicted wound, and that the Government should approach the Opposition with a view to trying out next Session a few radical changes such as the grouping of a number of Bills into a single Miscellaneous Powers Bill; arranging timetables for all Bills; and, when the drafting of a Bill was held up, holding the Second Reading debate on a White Paper and putting the Bill, when introduced, straight into Committee. It was however pointed out that QL Committee’s recommendations already included a number of combined Bills, and
that proposals would shortly be put forward for a wide review of Parliamentary procedure.

Doubts were expressed about the priority of a number of Programme Bills in Appendix III, and the following reasons were advanced for their inclusion in the programme:

a. The combined Bill on Parliamentary Pensions and Public Offices (Salaries) would be necessary to implement the forthcoming Top Salaries Review Body report on Members' pensions; it would save Parliamentary time and avoid the risk of a row on future occasions when the salaries of the Comptroller and Auditor-General and the Parliamentary Commissioner for Administration were increased.

b. The combined Bill on Drivers' Hours and Records and Minimum Driving Age, etc., was needed to give effect to European Economic Community obligations of a kind which the United Kingdom had hitherto always honoured and which would come into effect on 1 January 1976. This Bill might be introduced in the House of Lords.

c. Legislation on Official Information (Franks Committee) was a Manifesto commitment of considerable importance, and there was a need for The Queen's Speech to make clear the Government's intention to proceed, though not in terms which guaranteed the passage of legislation in 1975-76; this legislation might be combined with any legislation arising from the report of the Radcliffe Committee on Ministerial Memoirs.

d. Legislative measures to tackle problems of Race Relations were essential, and all the more important in view of the shortage of resources to deal with problems of deprivation.

e. The Government was committed to legislation on the Post Office (Giro) and on Trustee Savings Banks, and the preparation of these Bills was well advanced.

In discussion of Bills in the Reserve list in Appendix IV of the paper the following points were made -

a. The Government was heavily committed to the Bill on Public Lending Right, and if it were not introduced next Session a Private Member might succeed with a Bill and get the credit.
b. A separate major Bill on Construction Industry
Contracts (the Lump) was now unlikely. This would be
unwelcome to the Trades Union Congress (TUC), and it would
be desirable for presentational reasons to set up the proposed
Construction Industry Manpower Board by statute rather than
by Order, even though the latter would be technically possible.

c. The Bill on New Towns was of higher priority than the
Road Traffic Bill in the Programme list; this Bill should be
placed in the programme, and the Road Traffic Bill put in the
Reserve list.

d. The Bill on Private Practice was a Manifesto commit-
tement which satisfied all the criteria used by QL Committee.
There had been great difficulty with the trade unions, who had
been prevented from taking action into their own hands only on
a promise of legislative action by the Government. The
position could not be held for another year, and an undertaking
in The Queen's Speech to legislate in 1975-76 was essential to
avoid further trouble.

e. There was some support for including the Bill on
Conspiracy in the programme. On the other hand it was not
yet clear whether the TUC would support a Bill confined to
limiting the penalties for conspiracy, while the Law
Commission had not yet reported on the law of conspiracy as a
whole.

f. Legislation on Weights and Measures was essential
next Session because unit pricing and the standardisation of
containers, which were strongly supported by the TUC, were
dependent upon it. The metrication provisions of the Bill
would be more controversial (which pointed towards intro-
duction earlier rather than later this Parliament) but were
important to avoid the need for industry to run dual production
lines in both metric and imperial standards. This Bill might
be started in the Lords.

g. The policy on Civil Aviation was under review, and if
the conclusion were reached that changes involving legislation
were required, this legislation would then be of the highest
priority for political reasons and to avoid uncertainty in the
civil aviation industry.

h. There were four other Department of Trade Bills in the
Reserve list, all worthy and necessary measures which would
implement international commitments and make other much
needed improvements. None need be controversial and each was suitable for introduction in the Lords or for Second Reading Committee procedure.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the recommendations of the QL Committee set out in C(75) 73, subject to the modifications of some of the detailed proposals which had been agreed in discussion. The New Towns Bill should be placed in the Programme list and the Road Traffic Bill in the Reserve list. Further consideration should be given to the possibility of combining the Bills on Nuclear Power Stations (Financial Arrangements) and Oil and Gas Fired Power Stations (Restrictions of Fuel) in a single Power Stations Bill, and to a similar arrangement in respect of the Post Office (Giro) and Trustee Savings Banks Bills, though combination would not be worth while in the latter case if the Opposition were to agree to Second Reading Committee procedure for the non-controversial Trustee Savings Banks Bill. The Reserve Bills with the strongest claims for inclusion in the programme were those on Private Practice, on Weights and Measures and on Civil Aviation (if required following the policy review), and these three Bills should be treated as a top priority category within the Reserve list; they would have first call, after the Programme Bills, on drafting resources and on Parliamentary time, and the position relating to these Bills would be looked at again when the content of The Queen's Speech was decided. The possibility should be considered of marking the importance and status of the Construction Industry Manpower Board by some means other than legislation, for instance establishment by Royal Charter. The Lord President of the Council planned later to bring forward proposals relating to possible reforms of Parliamentary procedure.

The Cabinet -

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

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 10 JULY 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 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 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 Fred Peart MP
Minister of Agriculture, Fisheries and Food
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 Robert Mellish MP
Parliamentary Secretary, Treasury

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Reginald Prentice MP
Minister for 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

SECRETARIAT

Sir John Hunt
Mr P Benner (Item 1)
Mr J A Hamilton (Items 2 and 3)
Mr J A Marshall (Items 2 and 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 Cabinet considered a draft of the White Paper "The Attack on Inflation". Their discussion and the conclusions reached are recorded separately.

3. THE PRIME MINISTER informed the Cabinet that a telegram had just been received stating that the Foreign and Commonwealth Secretary had had a meeting with President Amin that morning at which United Kingdom/Ugandan relations and other matters were discussed. President Amin had agreed to release Mr Hills to Mr Callaghan and he would be returning to London with the Secretary of State later in the day. The Cabinet would wish to congratulate the Foreign and Commonwealth Secretary on his successful handling of this extremely difficult situation.

   The Cabinet -

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

Cabinet Office

10 July 1975
The Cabinet had before them a printed proof of the White Paper on inflation which had been made available shortly before the meeting and which superseded the draft circulated with C(75) 76.

Introducing it THE CHANCELLOR OF THE EXCHEQUER said that the Secretaries of State for Employment and for Prices and Consumer Protection and he had held an intensive series of meetings over the past week with members of the Economic Committee of the Trades Union Congress (TUC) and with representatives of the Confederation of British Industry (CBI).

There had been a marked and helpful shift of view by the TUC. At first they had been reluctant to consider any limit for pay increases below 15 per cent, and were also opposed to any legislation in support of a voluntary policy. They had however agreed to a flat rate limit of £6 a week, which was equivalent to a little over 10 per cent, and had also agreed that legislation was needed to enable penal sanctions to be operated through the Price Code; to relieve employers of their contractual obligation to pay more than the proposed limit; and to provide sanctions against individual local authorities through selective use of the Rate Support Grant. He had made it clear to the TUC that the Government also reserved the right to introduce a reserve power to make it an offence for employers to pay over the limit if this were thought necessary even though the TUC would be opposed to this. The CBI had finally accepted the proposed Price Code sanctions, and they had urged that a reserve power was necessary. There were elements in the proposals which they disliked but they had said that if they concluded that the policy eventually announced by the Government would work, they would support it.

The Cabinet then considered the printed proof paragraph by paragraph, and agreed to a number of amendments. The following were the more important points made in this part of their discussion.
On paragraph 6 it was noted that the equivalent of 10 per cent for the average adult worker was £5.50 a week; but the agreed flat rate of £6 would not carry through into overtime, and this, taken with the fact that some employers would in fact not be able to afford to pay the £6, meant that the overall effect of a £6 maximum could be equated with 10 per cent. It would however be important to emphasise that £6 was a maximum and not an entitlement. A flat rate had been adopted because a simple percentage, which would give only £3 to the worker on £30 a week, would have been unacceptable to the TUC; while a mixture of flat rate and percentage increase would have been too complicated and made much less impact presentationally. Nevertheless the flat rate created problems. One was that because there were large numbers of low paid workers — who benefitted most from the flat rate — in the clothing, retail distribution and food industries it could have a disproportionate effect on the movement of the Retail Prices Index (RPI). Another was that by compressing differentials and creating anomalies it would increase the problem of re-entry at the end of this phase of the Government's incomes policy.

Expenses

It was noted that there was no reference in paragraph 6 to expenses. It was agreed that expenses should not be affected by the limit, but that this was a point more suitably made in a speech in the subsequent Parliamentary debate.

Upper limit

On paragraph 7 it was agreed that the upper limit for the £6 increase should be £8,500 a year. This would not satisfy fully either the TUC or CBI but was a reasonable compromise which would in particular ease the problem in relation to the power engineers.

Transitional arrangements

On paragraph 8 it was argued that the cut-off date for transitional arrangements should be 1 August instead of 1 September. Admittedly this would involve hardship to certain public employees (including the police, the university teachers and the railway workers) whose later payments would then have to count against the £6 limit, but if the Government were to carry conviction they should allow no exceptions after the date for the introduction of the new policy. Against this it was argued that where public faith was pledged, or where the employees concerned were at the end of the previous pay round, it would be wiser to act with generosity, as long as the transitional provisions were clear and defensible. After further discussion it was agreed to retain the date of 1 September but to allow only
Food subsidies and rents

As regards the alternative paragraphs (34 and 35 or 34A and 35A) dealing with food subsidies and rents THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION argued that the whole of the £150 million which the Chancellor was prepared to make available in 1976-77 should be devoted to postponing the phasing out of food subsidies. Certain major food price increases were already in the pipeline, including those which would arise from the recent decision to adjust the representative rate for the "Green Pound". The flat rate pay limit would be likely to hit the food and distribution industries more than others, with consequential effects on prices. Other increases would arise from agreements under the Farm Price Review. There was also the prospect of a bad harvest due to the dry summer. The redistributive and egalitarian effect of food subsidies upon incomes was far greater than that of any other form of subsidy. Moreover, rent rebates protected the poorest people from the full impact of the rent increases, which would in any case not be felt until April, whereas the effect upon food subsidies would be felt from September.

Against this THE SECRETARY OF STATE FOR THE ENVIRONMENT argued that the available £150 million should be partly devoted to holding down the rise of £1 a week which would otherwise take place in council rents. This meant an increase next April of 23 per cent which would be highly damaging both politically and economically. People were not very greatly aware of the effect of food subsidies on their shopping bills, whereas the addition of £1 to their rent, coming at a time when local rates would almost certainly suffer an as yet unquantifiable increase, would make a far greater impact. He therefore favoured holding rent increases in line with probable price increases, which would mean a rise of 15 per cent or 60 pence.

After a short discussion, it was agreed that £80 million should be devoted to holding down the increase in council rents, and £70 million to postponing the phasing out of food subsidies.

THE SECRETARY OF STATE FOR ENERGY proposed that paragraphs 38-45 and 47 of the draft White Paper should be deleted since he felt that the draft put forward an economic strategy totally different from that on which the Government had been elected. It would involve real cuts in pay, rising unemployment, and rising prices designed to increase profits in the vain hope that this would
lead to increased investment. It was a recipe for a major slump which would lead to a continuing loss of manufacturing capacity. The TUC favoured an investment-led expansion; but there was nothing in the text referring to the National Enterprise Board, the introduction of planning agreements or the generally interventionist policies of the Government to stimulate more investment. Furthermore, the proposed incomes policy had been represented as an alternative to public expenditure cuts, whereas paragraph 42 foreshadowed further cuts in any case. In his view the strategy was a Conservative one, and would not work.

In discussion, there was no support for the deletion proposed; but a number of amendments were agreed. On public expenditure, it was agreed that the references in paragraph 42 should be amended to make it clear that the review in train was the regular annual procedure, and to ensure that nothing should prejudice the discussion which the Cabinet would shortly have about the level of public expenditure in future years.

It was suggested that a reference to occupational pensions, exempting improvements in them from the pay limit, which had appeared in the Annex to the version attached to C(75) 76, but was not in the printed version, should be restored; but after a brief discussion it was accepted that this would provide an undesirable loophole, particularly for the better paid.

The Cabinet then considered the provisional passage saying that the Government proposed to invite Parliament to enact reserve powers which, if applied in particular cases, would make it illegal for an employer to exceed the pay limit.

THE PRIME MINISTER said that this issue was one upon which the future of the Government could depend. If the White Paper was not seen to be credible and there were a further run on sterling the Government could be forced into much severer policies, including possibly even criminal sanctions against workers to which he had long been, and was still, firmly opposed. He saw the argument for reserve powers as the need to show that there was an effective means of coping with those few employers who settled over the limit, whether out of doctrinaire obstinancy or to poach skilled labour or because they were prepared to buy industrial peace at any price. This was a loophole which the Government needed to be able to close. The reserve powers envisaged could however only be activated by an Affirmative Resolution in Parliament and thereafter
by a specific Order against an individual company. There would be few, if any, cases in practice, since firms would shrink from the publicity which this procedure would involve. He had a strong preference for a policy which was fully agreed with the TUC particularly since the latter had moved further from their original position than had seemed possible. Nevertheless, the size of the minority vote at the TUC General Council the previous day inevitably left doubt about how far they could secure compliance with the agreed limit. The TUC would strongly oppose legal sanctions against workers; but they had accepted the need to legislate in order to relieve employers of their contractual obligations and he believed that they would acquiesce in the proposal for reserve powers against employers even though they would prefer to avoid it. He was as publicly committed against a statutory policy as any other Minister but he believed that the confidence factor made it necessary to take this limited reserve power as part of the legislative package which the TUC had already accepted to be necessary.

THE SECRETARY OF STATE FOR EMPLOYMENT said that, while the Cabinet would necessarily wish to give full weight to the arguments put forward by the Chancellor of the Exchequer at their meeting on 1 July there were other important factors which must be taken into account. In his view the adoption of the proposal to take reserve powers would lead to the destruction of the Government. He had two main reasons for saying this. First, it was important not to underestimate the Parliamentary difficulties. The voluntary policy in the White Paper already needed to be buttressed by legislation eg to provide penal sanctions through the Price Code, to extinguish employers contractual obligations and to take discriminatory powers for the Rate Support Grant. They would lead to a sizable Bill, but the TUC had accepted legislation on these points and there was no escape from it. It would however inevitably feed suspicions that the proposed policy had a strong statutory element. If the reserve powers were added to this it could double the size of the legislation and would certainly involve long and contentious arguments in the House of Commons. There would be strong objections from the Government's own supporters; and the Opposition would be able to use the position to its own advantage. In the resulting Parliamentary shambles, the Government's position would be seen as very weak and this would be just as damaging for sterling as the absence of a reserve power. Secondly, and concurrently with the Parliamentary troubles, there would be great difficulties with the trade union movement. He agreed that the vote at the previous day's TUC General Council had been disappointing, but the TUC document had been better than we had dared expect and this in itself must have lost some votes. There would probably now be a passionate debate
within the trade union movement to influence the vote at the meeting of Congress on 1 September. The TUC leaders who had done most to help the Government hitherto would be greatly hampered in this debate if reserve powers were now taken against their advice and wishes. This in itself could lead to an adverse vote at the Congress meeting which could in turn be very bad for foreign confidence. The truth was that it was not possible to run an effective incomes policy without the support of the trade union movement. The Government and the trade unions should move in step and he pleaded with Cabinet not to agree to reserve powers.

THE CHANCELLOR OF THE EXCHEQUER said that the decision facing Cabinet was not an easy one; but he felt that he had a duty to recommend the adoption of the reserve powers proposal. The TUC policy for pay coincided almost completely with that of the Government; but the problem of compliance remained and the credibility of the policy had suffered a setback from the previous day's TUC General Council vote. In his view there were three reasons for adopting the reserve powers. First, it was essential to be able to assure the workers who settled early in the coming pay round that, if they conformed with the policy, they would not be overtaken by others who came later. The sanction through the Price Code was unlikely to be effective in the case of capital-intensive firms, but if it were made illegal for employers to pay more than the limit, this would - without actually invoking the powers - enormously increase the degree of compliance. Secondly, while he acknowledged the Parliamentary difficulties, he believed that there was overwhelming public support, both in the country and in Parliament itself, for a policy backed by reserve powers. It was better to take the powers now rather than have to ask for legislation later when the mood might have changed. Thirdly, it was absolutely essential that the White Paper should carry conviction immediately to foreign holders of sterling. The general expectation was that reserve powers would be included in the policy, and if they were not there was a danger of an even more serious run on sterling. This situation might be impossible to retrieve and could lead to a collapse both of the currency and the Government. He recognised that the proposal would create great difficulties for the trade union movement, and particularly for those who had been most helpful in shifting opinion within the TUC in the previous fortnight. But he believed that they would still fight to make the policy work and he believed that without the reserve powers the policy would not be a credible one.

There was a general recognition that neither of the alternative courses was easy, and that each presented its own danger and difficulties. The Cabinet had to weigh the relative cost in terms of trade union goodwill against the risk of a run on sterling. The essential thing to avoid was a White Paper which did not carry
conviction and which then led to a fall in the exchange rate compelling the adoption of even sterner policies than those now in contemplation. It would in any case be a mistake to put too much emphasis on the reserve powers. In terms of anti-inflation policy, they were of little significance compared with the importance of the Government's willingness to stand up to strikes. It should be stressed that the main weight of the Government's policy rested on the financial sanctions.

In further discussion the following main points were made:

a. The previous day's TUC General Council vote was a serious disappointment, particularly since a year earlier the Council had voted unanimously in favour of much less severe guidelines which had subsequently been ignored by many unions. If the Council were divided over severer guidelines, the prospect of compliance with them must be much less even than last year. Against this it was argued that in 1974 the TUC had been voting on some general and rather ideal guidelines, whereas this year they had been dealing with far more practical and detailed suggestions. It was remarkable and significant that these had still won a majority vote.

b. It was fallacious to suggest that the reserve powers proposed would operate only against employers. Even though trade unions would be absolved from any liability to be charged with conspiracy, the truth was that in the present economic climate an employer would only pay an increase above the limit under pressure from a trade union. In that situation if the Government went to Parliament to obtain an Order against that employer, they would be effectively seeking to exercise a sanction against the workers. Furthermore, they would be seeking to impose a penalty upon an employer who was by definition in a position of great difficulty. It must be doubtful whether the House of Commons would in fact approve such an Order.

c. The political problem would be a continuing one. Even if the Bill were passed, there would be further crises, and the Parliamentary Labour Party would become broken and dispirited. The Government would then become dependent upon the capricious support of the Conservatives. The real test of a voluntary policy would come when a major union sought to use its muscle in defiance, and at that point the Government would need the strong support of the TUC. This consideration overrode the more immediate arguments in favour of taking reserve powers.
d. The reserve powers were in any case a transparent bluff. They meant that an employer could be driven into bankruptcy by the action of a powerful union; and it might be that when a case were brought against an employer he would be able to plead force majeure, in which case the credibility of the power would rapidly be undermined. Even if he could not effectively make this plea and were fined, the fine would have to be both large and continuous to make the sanction work. This was hardly likely to be an effective policy.

e. If the operation of reserve powers was likely to be both limited and unfair, this would become apparent in the Committee stage debate in the House of Commons (where the Government might well face defeat) and would hardly impress our overseas holders of sterling. The truth was that any policy could only succeed by a consensus.

f. On the other hand it was very difficult for members of the Cabinet other than the Chancellor to assess the likely effect on foreign confidence of a policy with or without reserve powers. Great weight had therefore to be attached to his judgment.

In further discussion it was suggested that one course which might ease the dilemma facing Ministers would be to refrain from including the reserve powers in the Bill which would be introduced following the White Paper and instead to include in the White Paper a pledge that the Government was determined to ensure success and a statement that the Government had a further Bill in reserve, which would be introduced at once if it were needed, to compel observance of the pay limit by all employers. In considering this proposal, it was argued that there was a risk that, if the reserve powers were not included in the first Bill, it would be difficult to carry conviction that the Government would in fact face up to taking statutory powers later. It would also be a mistake to think that reserve powers would have little effect upon the course of events - on the contrary, their existence would be likely to have a considerable influence, which was one reason why the CBI were in favour of them. Nevertheless, the battery of sanctions, including some legislation, with which the voluntary policy would be supported was impressive, and the Government had achieved a surprising degree of support and understanding from the Unions. It might therefore just be possible to hold the exchange rate with the intermediate proposal which had been made.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had to reach a very grave judgment, and they should not underestimate the seriousness of the situation they would face if the White Paper failed to carry conviction and a further serious run on the pound developed. The distinction which had been drawn
between taking reserve powers and holding legislation in reserve was however a subtle and significant one. The latter course would do much to ensure whole-hearted trade union support for the new policy; and the Chancellor of the Exchequer had indicated that he thought it should just go sufficiently far to reassure overseas opinion provided the statement about the Government's readiness to introduce the further legislation, if needed, were made in sufficiently robust terms and provided the White Paper as a whole appeared to carry conviction at home. It seemed clear that the existing balance of opinion in the Cabinet was against the inclusion of reserve powers in the immediate legislation and in favour of a clear statement in the White Paper that the Government had a further Bill ready for presentation and enactment if this became necessary. He proposed that he and the three Ministers who had conducted the negotiations with the TUC and CBI should meet to consider the redrafting of the relevant paragraphs of the White Paper which would be necessary to give effect to this consensus. They would also be seeing the TUC and CBI later in the afternoon. If necessary he would ask the Cabinet to meet again following these meetings.

The Cabinet -

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

Cabinet Office

11 July 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 10 JULY 1975
at 6.30 pm

PRESENT
The Rt Hon Harold Wilson MP
Prime Minister

The Rt Hon Edward Short MP
Lord President of the Council

The Rt Hon Rycy 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 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 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 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
SECRET

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

SUBJECT

DRAFT WHITE PAPER ON INFLATION
The Cabinet considered a draft of the White Paper "The Attack on Inflation". Their discussion and the conclusions reached are recorded separately.

Cabinet Office

11 July 1975
THE PRIME MINISTER said that the Cabinet, at their meeting earlier in the day, had faced an acute dilemma resulting from the dual need to avoid a further loss of overseas confidence in sterling and at the same time to retain the active support of the Trades Union Congress (TUC) in support of the new incomes policy. Given the initially divided views on the best way of resolving this dilemma, it had been remarkable that the Cabinet had been able to go so far towards reaching a consensus. Since that meeting he had considered with the Chancellor of the Exchequer and the Secretaries of State for Employment and for Prices and Consumer Protection the amendments which would be required to give effect to this consensus in the White Paper. They had also had meetings with representatives of the TUC and of the Confederation of British Industry (CBI). The amendments made to the draft White Paper had satisfied the Chancellor of the Exchequer that there was a good prospect of the external position being held provided the domestic presentation was right and provided there was a forthcoming response from the TUC following publication. He had therefore made it clear to both parties that he was speaking ad referendum the Cabinet. He had indicated to the TUC representatives what the Government decision was likely to be and had asked how they would respond if the Government did not take reserve powers but indicated that it had a Bill in readiness against possible need. In other words the Government would be indicating its trust in the unions and hoped that they would indicate that they could be relied upon. The TUC response had been extremely helpful. The CBI had pressed the need for reserve powers but he had given no indication of the Government's decision. He had asked them to emphasise the toughness of the Government's approach. He now wished to put formally to Cabinet that they should confirm their acceptance of the recommendation by the Chancellor of the Exchequer that reserve powers should not be included in the Bill to be presented after the White Paper was published, but that the White Paper should contain a clear indication that the Government had a Bill available for immediate use should the need arise.
It was also vital that complete secrecy should be maintained about the Cabinet's discussion and that there should be no hints or suggestions that the course which had been readily accepted by all concerned meant a victory for those who had opposed a reserve power initially. This would do more than anything else to disturb overseas confidence. The truth was that the consensus reached had not been easy, not just because initially views differed, but because most members of the Cabinet experienced some degree of division in their own minds on what was the right course. It was now of paramount importance to present a united front.

THE PRIME MINISTER, summing up a short discussion, said that the Cabinet endorsed the recommendation of the Chancellor of the Exchequer that reserve powers should not be taken in the Bill which would follow the White Paper but that a firm statement should be made that a further Bill had been drafted to make it illegal for employers to pay over the limit and that this would be introduced forthwith if the need arose. He proposed himself to make a statement in the House of Commons shortly after 11.00 am the following day, the White Paper being made available in the Vote Office when he sat down. He and the three negotiating Ministers would hold a Press conference at noon, which would be televised. He was firmly of the opinion that exposition of the Government's policy over the coming weekend must be left strictly to the three negotiating Ministers - the Chancellor of the Exchequer, the Secretary of State for Employment and the Secretary of State for Prices and Consumer Protection - and no other Minister should accept any invitation to appear on the media, nor should they make speeches on the subject. If they were compelled to touch on it at all, their text must first be cleared with the responsible Minister.

The Cabinet -

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

Cabinet Office

11 July 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
MONDAY 14 JULY 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 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 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 Fred Peart MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Lord Shepherd
Lord Privy Seal
SECRETARIAT

Sir John Hunt
Mr J A Hamilton
Mr J A Marshall

SUBJECT

MEDIUM TERM ECONOMIC ASSESSMENT
The Cabinet had before them a note by the Secretary of the Cabinet (C(75) 78) covering a note by the Treasury on the allocation of resources in the medium term; a memorandum by the Chancellor of the Exchequer (C(75) 79) on the Medium Term Assessment and public expenditure; and a memorandum by the Central Policy Review Staff (C(75) 80) on the issues arising on the other two documents.

THE PRIME MINISTER reminded the Cabinet that this was the first step in the new approach to public expenditure which had been agreed at the Cabinet meeting of 22 May (CC(75) 25th Conclusions, Minute 3). At the present meeting they should aim to take decisions on the totality of public expenditure. On 25 July they would consider public expenditure priorities, and aim to take decisions on the broad division of resources between the programmes. In the autumn they would take detailed decisions to be reflected in the next Public Expenditure White Paper. The Chancellor of the Exchequer had gone further than ever before in displaying to Cabinet the considerations which affected the medium term planning of public expenditure, and the Treasury paper set out the quantitative analysis for which Ministers had asked. It would however be understood that this did not put into commission the fiscal responsibilities of the Chancellor of the Exchequer. He suggested that the meeting might use the very helpful paper by the Central Policy Review Staff as an annotated agenda for their discussion, taking first the assumptions underlying the medium term assessment and the Chancellor's analysis; and then considering the alternative strategies and the proposed cuts in public expenditure.

THE CHANCELLOR OF THE EXCHEQUER said that the background to the proposals under consideration was a severe imbalance in the economy. In 1974 expenditure by the United Kingdom was 5 per cent more than earnings; and the expenditure of the public sector had been 19 per cent more than the revenue. The difference had been met by borrowing, half of the public sector deficit being covered by borrowing abroad (which also helped bridge the balance of payments gap) and half at home; the domestic borrowing was possible only because of an unusually high level of private saving, part of which was the result of the low level of private investment. He was clear that the balance of payments gap would need to be closed by about 1978; and that the public sector borrowing requirement should be reduced from the 10 per cent of the Gross Domestic Product (GDP) which it represented at the moment to something more like its normal 2½ per cent. Over the last decade or so, public expenditure had grown from 42 per cent of the GDP to 58 per cent; and in the last five years it had increased by £7,000 million and 500,000 people had been added to the public services. The proportion of the income of an average family taken in tax had risen from 5.6 per cent to 16.9 per cent. This was the background to the assessment before them.
The estimates in the official paper were neither a plan nor a strategy; they were an attempt, using econometric techniques, to foresee what would be likely to happen if present policies were left unchanged. He was strongly in favour of achieving an improved economic performance; but unless there were reasons to expect this it would be wrong to take it for granted that an improvement would be achieved when making forward expenditure plans. In constant prices, and on an average annual basis, it was expected that GDP would grow at around 3.2 per cent, making an additional £1,500 million of resources available by the end of the period. Of this, some £500 million would be needed to achieve a balance on external account by 1978 (to set a later target for balance would mean borrowing more than the £12-£15.000 million which would already be necessary before 1978, and would add appreciably to the burden of debt which would have to be serviced thereafter). Another £500 million was earmarked for private investment. It was not, of course, possible to say what private investment would in fact take place, but this was the order of magnitude needed to maintain a constant ratio of capital to output. This left £600 million to be divided between public expenditure (other than the investment of the nationalised industries, which was allowed for in the private investment figure he had just given) and private consumption. On present plans public expenditure would increase by some 2 per cent a year (and add a further 500,000 staff to public administration by 1980), so that private consumption would be able to rise by less than 1 per cent a year on average. In order to keep private consumption to this low level of growth, taxes would have to be increased so that the marginal rate of income tax for the average family would be about 50p in the pound, a level which would certainly not be acceptable to the trades union movement.

In discussion it was argued that the factual analysis in the Treasury paper was imperfect and was not sufficient as a basis for a decision of this importance. There were many possible variants which were not discussed. Thus, the assumption that £500 million would be needed for private investment implied that there would be an investment boom in the next few years and it was not at all clear that this would take place. On the balance of payments, to achieve balance by 1978 was a very ambitious target, and it had not been demonstrated that the price involved was one which should be paid. The figures given by the Chancellor for public expenditure as a proportion of GDP were not significant, because the definition of public expenditure used covered both transfer payments and expenditure on the acquisition of assets, which were totally different in the claim they made on resources. Again, the concentration of the tax impact on income tax was misleading, since in practice it would be likely to be met by increases in other taxes as well. It was by no means clear what had happened, after the Cabinet took the expenditure decisions which were embodied in
the last public expenditure White Paper (Cmnd. 5879), to make such savage expenditure cuts necessary. The major inputs into the medium term assessment had not substantially changed, the only major difference being the unexpectedly rapid improvement in the balance of payments situation. It seemed that the change was more a change in the value judgment applied than in the resources picture. The Cabinet needed to see some alternative policies and their consequences before they could judge if the present proposals were acceptable. At the last meeting of the National Economic Development Council, there had been a demand from all sides for the resumption of some form of national strategic economic planning, and it was arguable that, before any arbitrary targets were agreed, there should be discussion in the Council and public debate on what the priorities should be. Not only did the term "public expenditure" cover very diverse forms of expenditure with very different effects upon resource use; it also treated transfer payments as if they were not part of personal disposable income, which they undoubtedly were. There was a tendency to regard housing financed by private sector funds as a good thing, while housing financed through the public sector, which addedito the public sector borrowing requirement, was regarded as a bad thing. These semantic difficulties could confuse consideration of the real problem of resource allocation.

Against this it was strongly argued that although there might be doubt about the precise figures assumed in the analysis, overall they were beyond question an optimistic assessment of what was likely to happen. It followed that the reductions in planned expenditure put forward by the Chancellor of the Exchequer were the minimum adjustment that would be needed. While the definition of public expenditure might be arbitrary from some points of view it all had to be financed either by raising revenue or by public sector borrowing and it was the size of the borrowing requirement that influenced overseas holders of sterling. Nor would spreading the tax burden differently help the problem: increased indirect taxation added to the cost of living: increased direct taxation provoked higher wage claims. There was no easy way of raising money.

In further discussion the following points were made -

a. There was nothing in the paper to show how productivity, and thus total production, could be improved. Indeed, it could be argued that even to get back to the average annual increase of 3.2 per cent in GDP posited in the Treasury paper was itself optimistic and Cabinet needed further information on the micro-economic measures through which this would be done.
b. It would be unrealistic to plan on the assumption that balance would not be achieved by 1978 on external account. The fact that the balance of payments had, in the last six months, improved a great deal more rapidly than had been expected, meant that more resources, not less, were going into the balance of payments, and did not imply that any extra resources would be available for other purposes. In any case, it could be argued that the recent improvement was a temporary phenomenon, stemming from the effects of the recession, particularly de-stocking, and that we should move further back into deficit when economic activity began to pick up. The question of import controls had not yet been adequately evaluated and this should be done.

c. The increase which had taken place in public expenditure over the last decade or so would be a matter for congratulations if it had been accompanied by a willingness to shift resources into socially desirable expenditure such as hospitals and out of socially unjustified expenditure such as inessential private building. But this had not happened and there was a case for some measure of control over such unnecessary building. International comparisons of public expenditure were no help when the economies of other countries had improved so much more than that of the United Kingdom.

d. Before deciding on the proposed cuts, Cabinet needed to know more about the effects on employment both in the public sector, and in those industries which supplied the public sector, particularly the construction industry. It was of fundamental importance to take action to encourage counter-cyclical investment. Unemployment would rise above the 1 million mark before long, and could go as high as 1½ million in the course of the following year. Would the reductions in expenditure mean that trained teachers and nurses would be unable to get jobs? The paper was less than frank on the employment implications. There were already signs that the fear of unemployment was giving rise to increased militancy amongst workers.

e. It was questionable whether the Government should embark upon savage cuts in public expenditure just at the time when the Trades Union Congress (TUC) had reached an unprecedented degree of acceptance of Government policy on incomes.
In continuing discussion it was argued that it would be premature for the Chancellor of the Exchequer to make an early announcement about prospective cuts in public expenditure, before the Cabinet had had an opportunity to discuss how and where such cuts should be made. Moreover it was essential that the cuts should be selected with due regard to the importance of the individual programmes and not imposed across the board. An early announcement would in any case add to the problems of the Party and the Government, and before any decisions were taken there should be discussion with the (CBI) and the TUC - although it could be predicted that the former would want to reduce public expenditure and the latter would probably not welcome any increases in taxation. Indeed, one possible reaction to the forthcoming pamphlet "The Social Wage" might be that the Government was already spending quite enough on a whole range of expenditure programmes and that more attention should be devoted to getting proper value for the money which was being spent. Any early statement would be a devastating blow to the recently launched counter-inflation policy, and could contribute towards an adverse vote at the full meeting of the TUC on 1 September. In view of this the possibility of an announcement by the Chancellor of the Exchequer within the next week should certainly be discussed at a further Cabinet before any decisions were reached.

THE PRIME MINISTER, summing up the discussion, said that, while a majority of those who had firmly declared themselves supported the Chancellor of the Exchequer's proposal, it seemed that the Cabinet were not yet ready to reach a decision on whether the planned rate of growth of public expenditure in the years beyond 1976-77 should be reduced to the extent proposed. Moreover, major points had been raised in connection with the methodology of the medium term assessment and the nature of the reductions envisaged. Clearly the Chancellor had to be in a position to make a suitable reference to public expenditure in the debate beginning on Monday, 21 July and this should be in as specific terms as was consistent with the progress which the Cabinet could make at this stage. He therefore proposed that the Chancellor of the Exchequer should chair a small group consisting of the Secretaries of State for the Environment, for Employment, and for Prices and Consumer Protection and the Chancellor of the Duchy of Lancaster, who would prepare such a statement for consideration by the Cabinet at a further meeting to be held later in the week.
The Cabinet -

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

2. Invited the Chancellor of the Exchequer, in consultation with the Secretaries of State for the Environment, for Employment and for Prices and Consumer Protection, and the Chancellor of the Duchy of Lancaster, to prepare a draft statement by the Chancellor of the Exchequer for consideration at an early meeting of the Cabinet.

Cabinet Office

14 July 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 15 JULY 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
(Chair for Item 4)

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

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

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 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
(Items 1-3)

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 Lord Shepherd
Lord Privy Seal (Items 1-3)
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

SECRETARIAT

Sir John Hunt  
Mr P Benner (Items 1, 2 and 4)  
Mr J A Hamilton (Item 3)  
Mr E J G Smith (Item 2)  
Mr A M Macpherson (Item 3)

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1. **THE PRIME MINISTER** said that a meeting of the Cabinet was not planned for Thursday, 17 July when he and the Foreign and Commonwealth Secretary were due to attend a meeting of the European Council in Brussels. A meeting of the Cabinet was at present planned for Friday 18 July to consider the draft statement on public expenditure which, as the Cabinet had agreed at their last meeting, was being prepared by a group of Ministers under the chairmanship of the Chancellor of the Exchequer. If however the group could reach agreement on the draft it would be sufficient to circulate it to the Cabinet for information and a meeting would be unnecessary.

2. The Cabinet were informed of the business to be taken in the House of Commons during the following week. It was hoped that it would be possible to combine the Second Reading of the Remuneration, Charges and Grants Bill with the debate on a Motion to approve the White Paper “The Attack on Inflation” and to complete all the Bill’s remaining stages in the House of Commons on 23 July. The Paymaster General would co-ordinate the arrangements for handling the Bill on that day; but it would be convenient, where there were provisions for which a Departmental Minister was directly responsible - as was the case in relation, for example, to prices and to local authority finance - for that Minister to handle the relevant clause. It was important that the Bill should be completed on that day if at all possible; otherwise - even with Parliament sitting until 8 August, as would probably be necessary - it would not be possible to complete the Petroleum and Submarine Pipelines Bill, the Community Land Bill and the Employment Protection Bill in time for all of them to receive their Second Reading in the House of Lords before the Recess. The timetable proposed for the Remuneration, Charges and Grants Bill depended on its being published on the following day. The draft Bill had been discussed by the Chancellor of the Exchequer and the Secretary of State for Employment and was about to be circulated to members of the Cabinet. Any comments must therefore be made very urgently.

The Bill giving the Government reserve powers to control pay would not be introduced before or during the economic debates during the following week. Publication should if possible be deferred until after the annual conference of the Trades Union Congress in September. Its text should, however, be agreed by Ministers collectively as soon as possible on a contingent basis and without prejudice to a decision on publication or introduction.
3. The Cabinet resumed their discussion of the handling of the report of the Top Salaries Review Body (TSRB) about the pay and allowances of Members of Parliament.

THE PRIME MINISTER said that at their previous discussion on 3 July the Cabinet had agreed that Parliament should be told that the TSRB report would be published early in the week beginning 14 July and that there would be a Government statement at the same time. It was the intention that this statement would indicate that the Government accepted in full the recommendation on the increase in allowances to Members of Parliament; but that in present circumstances it was out of the question to accept in full the TSRB recommendations for the increase in Members' salaries. He had asked the Lord Privy Seal to calculate how the salaries of Members would have moved between the date of their last increase (1 January 1972) and 1 January 1975 on two bases: the first, applying a compound increase of 10 per cent per annum which produced a figure of £5,990 as at 1 January 1975; or if it were decided to apply the increase from the date on which the TSRB report was received (13 June 1975), a figure of £6,270: the second, adjusting the existing salary to allow for the increases which Members of Parliament might have received under Stages 2 and 3 of the statutory provisions of the previous Administration, together with an increase in the Retail Price Index under the social contract provisions; this yielded a figure of £6,075 from 1 January 1975, or £6,630 from 13 June 1975.

In discussion of the amount of the increase in salary which should be paid to Members following the recommendations of the TSRB, it was argued that a decision to give Members an additional £1,500 as had been suggested at the last Cabinet discussion would be unacceptable to public opinion in present circumstances, coming so soon after the Government's recently announced counter-inflation policy which laid it down that no-one earning under £8,500 a year was to receive an increase greater than £6 per week. It could be argued that Members of Parliament were entitled to receive an increase which would at least permit them to catch up with the rise in the cost of living since their last increase, but there would be great resentment in the country if Members were given a rise of roughly £30 per week. The Government were already proposing that the TSRB recommendations on the payment of allowances should be accepted in full, and this would give a typical Member £2,000 per year extra, which was a substantial relief, even although much of this was intended to cover the cost of secretarial assistance. In so far as the increase in salary was intended to be retrospective, some account would need to be taken of the rise in the cost of living since the time of the last increase, but it would be better to choose a figure which, even although it might be arbitrary, would be politically acceptable in the present climate. On this basis, an increase of £1,000 a year might
be justified, even although it bore only a crude relationship to the movement in the cost of living since the date of the last increase paid to Members.

On the other hand, the feelings of Members of Parliament were running high on the question of their pay, as they had made clear to the Prime Minister when they met him on 2 July. Although there was a high degree of understanding and sympathy with the Government over the new pay policy, backbench Members increasingly devoted themselves full-time to their work and therefore depended entirely on their Parliamentary salaries to support themselves and their families. Since their last increase in January 1972, everyone else had received a rise in pay which was related to the increase in the cost of living, and the least that Members should expect was to be given the minimum increases to which they might have been entitled under the former Administration’s statutory pay policy and, since July 1974, under the social contract. If they received this minimum entitlement it would increase their salary roughly by £1,500. This was £2,000 less than the increase recommended by the TSRB so that it could be said that Members would be renouncing a substantial part of an increase to which they were entitled under the award of a review body. The Session that was now coming to a close had been a very arduous one, and Members had been required to work long hours in Parliament and they could not be relied upon to do so without protest if what they regarded as their legitimate right to an increase in salary were to be set aside.

In further discussion the following points were made:

a. If the Government was now to restrict the payment of increases to those earning under £6,500 a year to a flat rate of £6 a week, there was something to be said for applying such a flat rate to any increase paid to Members of Parliament. It might be possible to do this by calculating the increase to which Members were entitled under existing pay policies up to 1 January 1975, and awarding the equivalent of a £6 flat rate with effect from that date. There was however the risk that if a flat rate of increase of £6 a week was awarded, this would be seen by everyone else who claimed an increase as the rise to which they were entitled and not the upper limit within which pay negotiation was to take place. In general, it would be prudent not to relate the final increase in salary to any precise calculation, lest this should prove an embarrassment in any subsequent review of Members’ salaries.

b. The manner in which the Government’s decision was presented would have a decisive effect on the way in which it was received by the public. The announcement should start
by referring to the full increase in salary recommended by the TSRB and go on to point out that in view of the exceptional circumstances through which the country was passing, Parliament had agreed that its Members should renounce a substantial part of the increase recommended by the Review Body; but there should be no suggestion that the Government endorsed the recommendations. The rise in the cost of living since the date of the previous increase should then be mentioned; and the statement should go on to say that the increase now being awarded to Members of Parliament amounted to considerably less than half of the increase that would have been necessary to keep the value of their salaries in step with the cost of living. Members of Parliament would therefore continue to accept a decrease in the real value of their remuneration.

c. The suggestion that the pay of Members of Parliament should be linked with one of the grades either in the Civil Service or in the Parliamentary Staff had been welcomed by backbench Members when the Prime Minister referred to the matter on 3 July. The Government should repeat their readiness to discuss the matter with backbenchers. The choice of an analogous link either with the Civil Service or the Parliamentary Staff would be governed by the consideration that most Members devoted themselves full-time to their work and did not have an outside income to support them.

In continued discussion on Ministerial salaries it was suggested that if Members of Parliament were to renounce a substantial part of the increase awarded to them under the TSRB report, Cabinet Ministers should play their part in setting an example in support of the Government's counter-inflationary policy by accepting a cut in their own salaries, even although the TSRB were still reviewing the question of Ministerial salaries. Alternatively, Cabinet Ministers who were Members of the House of Commons could renounce all or part of the £2,000 increase in the Ministerial Parliamentary salary recommended by the TSRB. Since the TSRB had still to report about Ministerial salaries, any cuts in Cabinet Ministers' salaries, or any renunciation of allowances to which they might otherwise be entitled, would have to be presented as a gesture in deference to the stringent pay policy which had now to be universally applied. But there was no suggestion that Ministers were overpaid; indeed Ministerial salaries had steadily declined in real terms since they were last fixed at the beginning of 1974. There was the further difficulty that tax would continue to be calculated on the full rate of salary even although part of it was voluntarily renounced. This could be overcome if the cut were effected by means of a short Bill, but such a step would mean that pensions would be adversely affected.
The position of Cabinet Ministers who were not Members of the House of Commons would require to be considered separately. It was noted that the TSRB had proposed that Members of the House of Lords should be awarded, as an interim measure, an increase of £2 per day in their attendance allowance. This matter should also be considered separately.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that in present circumstances it would not be possible to pay in full the increases which the Review Body had recommended. They agreed that the increases in Parliamentary allowances, amounting to roughly £2,000 per year, should be paid in full; but the recommended increase in salary would need to be curtailed by a substantial amount. The consensus of opinion in the Cabinet was that the increase in salary should be limited to £1,250. The question of the consequential effects on pension rights still required to be settled before a statement could be made in Parliament. He therefore proposed that a small Ministerial group, consisting of the Chancellor of the Duchy of Lancaster, the Lord Privy Seal and a Treasury Minister, with the Lord President of the Council in the chair, should consider this matter before the statement was finalised. On the question of Ministerial salaries, the Cabinet agreed that Cabinet Ministers who were Members of the House of Commons should not receive the £2,000 increase in the Ministerial Parliamentary salary recommended by the Review Body; Ministers not in the Cabinet should receive the same proportion of the £2,000 as had been agreed for the increase in Members' salaries. On the other hand, there was a consensus against any reduction in Ministerial salaries. He would discuss further with the Lord Chancellor and the Lord Privy Seal their own position as Members of the House of Lords. It would not be possible to make a statement in Parliament later that day; the Lord President of the Council should therefore arrange to announce the Government's decision the following day.

The Cabinet -

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

2. Invited the Lord President of the Council to arrange for a small Ministerial group consisting of himself, the Chancellor of the Duchy of Lancaster, the Lord Privy Seal and a Treasury Minister to consider further the question of Members' pension rights as they were affected by the Cabinet's decisions on salary.

3. Invited the Lord President of the Council to make a statement about the Government's decision in Parliament the following day.
4. The Cabinet had before them a memorandum by the Secretary of State for the Environment and the Lord President of the Council about the future of the new Parliamentary building (C(75) 75).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that an early decision was needed on whether work should proceed on the new Parliamentary building, in particular so that the architects, Messrs Spence and Webster, could know where they stood. In June 1973 the House of Commons had voted for the construction in due course of a new Parliamentary building on the Bridge Street site; and they had also approved the competition-winning design by Messrs Spence and Webster. The cost of the building and associated works would be at least £30 million at current prices. He and the Lord President of the Council took the view that in the present economic circumstances the only feasible course was to postpone the new building indefinitely and to pay off the architects. But there were still 138 Members of Parliament without proper offices, and therefore the Services Committee should be invited to consider the rehabilitation of Norman Shaw South, which within two years of a decision could provide accommodation for 81 Members, 81 secretaries and 38 staff, at a cost of £15.75 million, exclusive of the cost of rehousing the civil servants now occupying the building. The Services Committee might also be invited to consider the rehabilitation and use for Members of one of the other existing buildings on the Bridge Street site. A further possibility which was being investigated was the use of some accommodation in the Speaker’s Residence. A draft statement announcing these decisions was annexed to the paper which had been circulated, and it would be convenient for it to be made on the same day as the statement about Members’ pay.

THE CHANCELLOR OF THE EXCHEQUER said that it would be undesirable at the present moment for the Government publicly to commit themselves to any expenditure on raising the standard of Members’ accommodation. The statement should therefore do no more than announce the indefinite postponement of the proposed new Parliamentary building and promise to consider the conversion of Norman Shaw South when funds were available. The Chief Secretary, Treasury, had circulated a minute proposing some minor amendments to the draft statement which would produce this effect.

THE LORD PRESIDENT OF THE COUNCIL, summing up a brief discussion, said that the Cabinet approved the proposals in C(75) 75 subject to the points which had been made in discussion by the Chancellor of the Exchequer. A statement on the lines of the draft which had been circulated, but taking account of the amendments proposed by the Chief Secretary, Treasury, should be made on the same day as the statement about Members’ pay.
The Cabinet -

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

Cabinet Office

15 July 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 24 JULY 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 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
SECRET

SECRETARIAT

Sir John Hunt
Sir Patrick Nairne (Item 2)
Mr P Benner (Item 1)
Mr J A Hamilton (Item 3)
Mr T F Brenchley (Item 2)
Mr E J G Smith (Items 1 and 2)
Mr A M Macpherson (Item 3)

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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 serious difficulties had arisen in connection with the Committee and remaining stages of the Remuneration, Charges and Grants Bill, which it had been hoped to complete later the same day. Some hundreds of amendments had been put down by the Conservative and Liberal Parties, the greatest danger to the Government probably arising in connection with Clause 3. In view of the broad public acceptance of the policy embodied in the Bill, it might well be that the Opposition's will to press the amendments would weaken when it became apparent that the Government were prepared for the House to sit continuously to deal with them, if necessary until the morning of the following Saturday (26 July). But if this did not prove to be so, it might be necessary to consider a Timetable Motion, which would have to be put down in time for it to be moved at 11 am on the following day (Friday, 25 July). If proceedings on the Bill in the House of Commons were allowed to extend into the following week, for example, by allowing a separate day for the Report Stage and Third Reading, this would reduce the time which had been allocated that week for consideration of the Community Land and Employment Protection Bills, and it might become necessary to consider putting down Timetable Motions for those Bills also. They and the Petroleum and Submarine Pipelines Bill must receive their Second Reading in the House of Lords before the Recess if they were to have a fair prospect of reaching the Statute Book during the current Session. At the moment the Opposition in the House of Lords were disposed to be reasonably co-operative; but this would no longer be the case if Timetable Motions were adopted in the House of Commons and it might well become impossible to complete all essential legislation this Session. A bargain might be reached with the Opposition on the basis that the Community Land Bill would be postponed, and this might be made more acceptable to the Government by tabling a Motion allowing the Bill to be reintroduced in the following Session at the stage at which it had reached this Session. But there were serious procedural and other objections to this course, and in any case any delay in passing the Bill into law was likely to have harmful practical consequences. Other courses of action which were theoretically open were to defer the beginning of the Recess until later than the planned date of 8 August and to provide for a longer spillover, but both were open to very severe objections.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet could not settle their tactics until proceedings on the Remuneration, Charges and Grants Bill had started and there had been an opportunity to assess the temper of the House of Commons.
Accordingly the Lord President of the Council, the Chancellor of the Exchequer, the Secretary of State for Employment, the Secretary of State for Prices and Consumer Protection, the Lord Privy Seal and the Parliamentary Secretary, Treasury should meet at 10 pm that evening in order to consider what tactics should be adopted. If there were any question of increasing the time available for the Remuneration, Charges and Grants Bill by delaying consideration of the Community Land Bill, it would have to be on the basis that the Opposition would subsequently facilitate progress on the latter so that it could reach the Statute Book by the end of the planned spillover. The Ministers should in particular consider, in the light of the Cabinet’s discussion, whether there was a case for putting down a Timetable Motion to be debated at 11 am on the following day. If such a Motion were put down, as much notice as possible should be given, since it was important to avoid giving the Opposition any legitimate complaint on procedural grounds and thus risking that they would receive the public sympathy which had hitherto been denied them in view of their attitude towards the substance of the Bill. If the Ministers concerned considered that such a Motion should be put down, but wished their conclusion to be endorsed by their colleagues, an immediate meeting of the Cabinet would be arranged. In view of the Parliamentary situation the meeting of the Cabinet to discuss public expenditure priorities which was to have taken place at Chequers on Friday, 25 July would be postponed until Monday, 4 August.

The Cabinet -

Took note, with approval, of the Prime Minister’s summing up of their discussion and invited the Lord President of the Council, in consultation with the other Ministers concerned, to be guided accordingly.
2. **THE FOREIGN AND COMMONWEALTH SECRETARY** said that the situation in Portugal was confused. The Armed Forces Movement (AFM) were disillusioned in the face of their political and serious economic problems; and it was believed that the officers of the Lisbon garrison were divided about the desirability of ousting General Goncalves from the post of Prime Minister. The Socialist Party leader, Dr Soares, aimed to achieve this and would like to replace Goncalves by an alliance of Crespo and Antunes. Soares was however impetuous and might in fact have saved Goncalves by calling for his resignation; the Popular Democratic Party were probably wiser in not working openly for his removal. Dr Soares, who might call for a general strike, feared large scale arrests of his supporters (and also his own assassination), but it was doubtful whether the Communists were themselves strong enough to move in force. There was however a possibility that the Communist Party, with the backing of some members of the AFM, might stage a left-wing coup ostensibly to forestall intervention by the North Atlantic Treaty Organisation (NATO): precautions were therefore being taken about NATO naval movements in the area to avoid providing a pretext for this. At the European Council meeting there had initially been a division of opinion about aid to Portugal and it was possible that the French had been motivated more by domestic political considerations than by the merits of the situation; the final statement had however been a good one. It had begun on a positive note but had then made it clear that the provision of aid depended on Portugal being a pluralist democracy. The European Council had agreed that the Prime Minister and the French President, M Giscard d'Estaing, should discuss Portugal with Mr Brezhnev, the Secretary General of the Communist Party of the Soviet Union, at the forthcoming Helsinki Conference. There was no doubt that the Soviet Union was supplying substantial funds to the Portuguese Communist Party, so Mr Brezhnev had it partly in his power to control the situation as evidence of his wish for genuine detente. The Prime Minister and he would attend a meeting of Socialist leaders in Stockholm which the Swedish Prime Minister had called for 2 August and which might help to strengthen the position of Dr Soares, who would attend it.

**THE FOREIGN AND COMMONWEALTH SECRETARY** said that the third stage of the Conference on Security and Co-operation in Europe, which the Prime Minister would be attending in Helsinki the following week, was of great importance. The results of the second stage of the Conference had been as good as, or perhaps better than, we could have expected. One of the critical issues had been the provision about inviolability of frontiers. The Federal
Republic of Germany had accepted a statement to the effect that frontiers, while inviolable by force, could be changed by peaceful means and in accordance with international law. It was important to the Germans to maintain the principle that frontiers should not be sanctified in concrete and the provision for peaceful change might some day have application elsewhere in Europe. This did not mean that the East European countries would now detach themselves from the Warsaw Pact, but he attached significance to a remark made to him by the Polish First Secretary, Mr Gierek, that "detente gives us room for manoeuvre". It was up to the West to play their part in developing that room for manoeuvre. The British role at Helsinki would be prominent since by luck of the ballot the Prime Minister would be the first speaker at the opening session and would also be chairman for the closing one. Looking beyond the third stage, our next objective was to make 1976 a year for reaching agreement on some reduction in arms in Central Europe. We favoured a resumed meeting of the Conference in early 1977 at Ambassadorial level to assess the results then achieved over the whole range of subjects agreed at the third stage of the Conference. In the meantime the development and exploitation of trade contacts was of the highest importance. He was in close contact with the Secretary of State for Trade about this and would himself be visiting Hungary in the following week.

THE FOREIGN AND COMMONWEALTH SECRETARY said that both Houses of the Indian Parliament had now approved Mrs Gandhi's emergency powers which meant that there was no need for Parliament to meet again for at least a year. It was a serious matter that the correspondents of four leading British newspapers had been forced to leave India and that the British Broadcasting Corporation had decided it had to withdraw its correspondents. A protest had been made through our High Commissioner in Delhi: and he had put in hand an urgent study of the situation. There was no sign as yet that the Soviet Union was seeking to exploit the situation in India.

The Cabinet -

1. Took note of the statements by the Foreign and Commonwealth Secretary.
THE PRIME MINISTER said that the Government could be well satisfied with the record of their foreign policy over the 17 months they had been in office. Both President Ford and Dr Kissinger had said that our relations with the United States were now better than at any time since the war. Relations with the Soviet Union had been dramatically improved: indeed the Soviet Prime Minister, Mr Kosygin, had described the success of their meeting in February as "outstanding" and there were prospects of major trade contracts since Britain was being given priority in the Soviet plan for purchases of consumer goods. Our relations with other countries in Eastern Europe were also very good. Our standing in the Commonwealth was high, as had been demonstrated at the Commonwealth Heads of Government Meeting at Jamaica. The Rhodesian situation remained unresolved, but we had much improved our position in the eyes of African leaders. The recent European Council meeting had shown a welcome advance in that discussion had concentrated on important practical issues such as commodities and raw materials rather than on procedural or institutional matters relating to the Community's own development.

The Cabinet -

2. Took note, with approval, of the statement by the Prime Minister.
3. The Cabinet had before them a memorandum by the Lord Privy Seal (C(75) 84) recommending that the Peers' Expenses Allowance should be increased by £2 a day with effect from 1 August 1975.

THE LORD PRIVY SEAL said that the Peers' Expenses Allowance was increased to its present rate of £11.50 a day on 1 August 1974. At that time the whole question of the rates and conditions of payment of the allowance was referred to the Top Salaries Review Body (TSRB). The Review Body had been unable, because of pressure of other work, to deal with the Peers' Expenses Allowance in the first part of their report submitted on 13 June, but they had promised to produce a further report before the end of the year which would deal, among other matters, with this allowance. However, in the meantime the chairman of the TSRB had written to the Prime Minister on 27 June proposing on behalf of the Review Body that there should be an interim increase in the allowance which would bring it up to a maximum of £13.50 a day. The proposed interim increase was in recognition of the fact that the TSRB had recommended increases in the allowances of Members of Parliament, and took account of the increase since 1 August 1974 in the costs which the Allowance was intended to cover. The Peers' Expenses Allowance was a daily limit within which Peers could reclaim their actual expenditure for attending sittings of the House of Lords. Peers had been asked to claim only their actual expenses rather than the full amount of the allowance, and as a result of this appeal, only 60 per cent of those attending claimed the full daily rate. If the Cabinet agreed to increase the allowance by the amount proposed, there would be a further appeal to Members of the House of Lords to claim only their actual expenditure and not the full allowance. The proposal to raise the allowance by £2 a day represented an increase of 17 1/2 per cent, compared with the 28 1/2 per cent increase in the subsistence allowance of Members of Parliament which had recently been approved. Members of the House of Lords were beginning to feel that they were not receiving the same treatment as the Commons, and this could create problems for the management of business in the Lords.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet approved the proposal that the daily rate of Peers' Expenses Allowance should be increased by £2. It would be unfortunate presentationally if the increased allowance were to be paid with effect from 1 August 1975, which was the date from which the Government's incomes policy began to operate. The Lord Privy Seal should therefore make arrangements for the payment of the higher rate of allowance with effect from 13 June, the date on which the first part of the report of the TSRB had been submitted.
The Cabinet -

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

2. Invited the Lord Privy Seal to arrange for the payment of Peers' Expenses Allowance at a daily rate of £13.50 with effect from 13 June 1975.

Cabinet Office

24 July 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on TUESDAY 29 JULY 1975 at 10.45 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 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 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 Fred Peart MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Lord Shepherd
Lord Privy Seal
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

SECRETARIAT

Sir John Hunt  
Mr P Benner (Item 1)  
Mr J A Hamilton (Item 2)  
Mr E J G Smith (Item 1)  
Mr R G S Johnston (Items 1 and 2)

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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 was proposed that the House should adjourn for the Summer Recess on Thursday, 7 August and resume on Monday 13 October.

It was reported that, despite informal arrangements which had been made through the usual channels, the Community Land Bill would not now be reaching the House of Lords until 16 October; and it was very doubtful whether it could be completed within the period of 2½ weeks which would remain until the end of the proposed spillover. The Whips would shortly be meeting representatives of the Opposition in both Houses and the future handling of the Bill would then be discussed. The suggestion had been made that the House of Lords might come back for a week in September immediately before the beginning of the Party Conferences; but they were prepared to agree to this only if the House of Commons also returned. This would not be acceptable, given the extreme pressure under which Members had been working during the current Session.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that means must be found of ensuring that the Community Land Bill reached the Statute Book during the current Session, and that there could be no question of deferring it. It would be best if agreement on its handling could be reached with the Opposition so that it could be completed without any need to alter the proposed arrangements for the spillover. Failing that, both Houses could in principle be brought back for an extra week in September; but the objections to this course were extremely powerful. It might therefore be necessary, should all else fail, to consider extending the proposed spillover for another week and deferring the opening of the next Session until mid-November.

The Cabinet -

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

The Cabinet were informed that on the following day separate reports would be published by the Parliamentary Commissioner for Administration (PCA) and by inspectors appointed by the Secretary of State for Trade about the collapse of Court Line Limited, the holiday and travel firm. Both the reports were critical of the Government for their part in the events preceding the firm's collapse, arguing that, on the strength of reassuring statements by the Government - acknowledged to have been made in good faith - holidaymakers had booked with the firm and thus lost their money.
In discussion, it was argued that an opportunity for debating the reports would be demanded by the Opposition. It would be desirable to accede to their wishes, since there was no doubt that the Government had a good case, which should be presented as quickly as possible; and this could most effectively be done by way of a debate. It would however be difficult to find the necessary time without either curtailing the other business proposed or deferring the date of adjournment for the Summer Recess. A possible alternative course might be to use the opportunity of the debate on the Consolidated Fund (Appropriation) Bill, which was due to take place on 31 July; but this would prevent the Government from deploying their detailed arguments and replying fully and effectively to any criticism.

In further discussion it was pointed out that the Ministerial Committee on Industrial Development (IDV) had yet to decide what the Government's response to the reports should be. Whether to offer further compensation or stand firm on what had been done so far, also still had to be settled. Moreover there were the further questions whether a statement should be made when the reports were published and, if so, who should make it. It might however suffice merely to promise a debate before the Recess.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that there should be a half-day debate on Wednesday, 6 August on the Court Line reports, and that the vote should be at 7.00 pm. The debate on the textile industry should begin at 7.00 pm and continue until midnight. The Court Line debate would raise issues which would need careful handling - for example, because it had become known to the companies concerned that the Law Officers had offered an Opinion that the Government had a moral commitment. IDV Committee should consider, at their meeting later that day, what the Government's response to the reports should be; whether there should be a Parliamentary statement when the reports were published; and if so, by whom it should be made. It would also be necessary to settle who should speak in the debate; but there were strong arguments for the view that the Secretary of State for Energy, who was criticised in the reports in respect of his then role as Secretary of State for Industry, should wind up the debate.

The Cabinet -

2. Took note, with approval, of the summing up of their discussion by the Prime Minister.
2. The Cabinet considered a memorandum by the Secretary of State for Industry (C(75) 86). Their discussion and the conclusions reached are recorded separately.

Cabinet Office

29 July 1975
CABINET

CONFIDENTIAL ANNEX

CC(75) 38th Conclusions, Minute 2
Tuesday 29 July 1975 at 10.45 am

THE CABINET

THE MOTORCYCLE INDUSTRY

The Cabinet considered a memorandum by the Secretary of State for Industry (C(75) 86) about the future of the motorcycle industry.

THE SECRETARY OF STATE FOR INDUSTRY said that for some years the British motorcycle industry had been in considerable difficulty, and had received considerable support from public funds. In February 1975, when the Ministerial Committee on Industrial Development (IDV) had considered the position, they had authorised his predecessor to appoint consultants to examine possible strategies for the future of the industry. The consultants' report had now been received and circulated to the Cabinet. It suggested three possible lines of approach, which were summarised in Annex A to C(75) 86, A "low volume/high premium" strategy providing work for about half the present number engaged in the industry, at a cost of £15 million public investment. A "medium volume, low premium" strategy requiring £40 million of investment and providing jobs for about 2,000 people; a "high volume/low premium" strategy providing work for the 3,000 currently in the industry, but requiring over £50 million of Government investment. There was a clear risk that the amounts of public expenditure needed would be much greater than these estimates. None of the strategies would enable all three existing factories to remain in production: even on the most optimistic assumptions the industry would not recover to a zero cumulative cash flow until the late 1980s. There were very considerable risks that any of the strategies, if adopted, would fail in the face of overwhelming competition, largely from the Japanese. The motorcycle industry was now dominated by Japanese products, which had combined large volume production with advanced design. In 1968 British motorcycles held 70 per cent of the North American market, which the Japanese had not then entered; in 1974 the Japanese held 70 per cent and the British share had fallen to 10 per cent. As a result of this severe competition, the British had, over the years, restricted production to a narrow sector, and now
concentrated on producing machines of 750cc capacity and above. Even there, the Japanese were proving more successful and the British firm of Norton Villiers Triumph (NVT) had 13,000 machines stockpiled throughout the world which they had been unable to sell. The Japanese had obtained their supremacy not on the basis of Government subsidy or low wages, but on high capital investment, good design and competitive prices. The Japanese workers earned higher wages than those of NVT, but their productivity was also much higher: the Small Heath factory of NVT produced about 10 motorcycles per man per year, whereas the corresponding figure for Japanese firms was about 100.

The consultants' report had been examined by the Industrial Development Advisory Board (IDAB) who had concluded that none of the strategies offered any prospect of viability. They had searched for an alternative, but failed to find one; reluctantly the IDAB had agreed that there was no future for the British motorcycle industry.

If the Cabinet accepted this view, there would be a difficult problem of presentation. He had met the workers and management of NVT and of the Meriden Co-operative twice in the last week, and they had laid great store on a letter (reproduced at Annex B to his paper) from his predecessor to Mr Checkley, Convener of Shop Stewards at one of NVT's factories, which said that the Government was fully committed to securing the future of the motorcycle industry in this country, and that this involved the success of NVT no less than the Co-operative. Although his predecessor had made clear in talking to the workers at NVT that there could be no guarantee of employment, and it had been argued that the workers at Small Heath had rejected the offer contained in this letter of 6 November 1974, there was evidence that the letter would be interpreted as a firm commitment. The NVT workers had made it plain to him that they wanted immediate nationalisation, and the Government to embark on the "high-volume" strategy. Representatives of the Meriden Co-operative did not want nationalisation, but were anxious to get the right to use the Triumph name, which was owned by NVT. If no promise of further help were given, NVT workers were likely to go on short-time when they returned from holiday, and it was probable that the NVT factory at Wolverhampton would be closed down, and a receiver appointed, but, for the time being, NVT would try to maintain production in the other factory at Small Heath.

The previous Administration had invested £4.9 million in NVT in 1973; the present Government had guaranteed a further £8 million in March 1975, provided £4.8 million of assistance for the Meriden Co-operative and a guarantee of £6 million for export credits. If the Cabinet now agreed that no further help should be given, there
were prospects of criticism by the Public Accounts Committee, the Parliamentary Commissioner for Administration and, if NVT went into receivership, by inspectors appointed by the Secretary of State for Trade. Nevertheless, he believed that, in the face of the evidence, there was no reason for the Government to give further support to the motorcycle industry, and he sought agreement to making a statement to Parliament in this sense at an early date, simultaneously publishing the report by consultants.

In discussion, it was argued that the consultants' report was a fearful indictment of British industry. It showed that the classic response of our industry to foreign competition was "segment retreat" rather than fighting back. The same phenomenon could be seen in the textile industry. The consultants' report was not so despondent as had been depicted. It said that, although there were some risks, all the strategies showed some prospect of profitability when new models were produced. This might indeed mean the 1980s, but the Cabinet had accepted the Ryder report on British Leyland which also promised no profits for some years, but had saved a million jobs. The motorcycle market worldwide was expanding, and, given the right leadership, the workers in the industry would undoubtedly respond to proposals for either the high or medium volume strategies. The collapse of NVT would bring down the Meriden Co-operative, which was doing well, and the psychological effect of the Government's abandoning of the industry would have widespread repercussions throughout industry and among the Government's supporters.

The motorcycle industry had an appalling record of bad management. The consultants' report made it clear that the loss of market share arose from the short-term profit-taking which private owners had preferred to adequate investment. The industry had been repeatedly subjected to investigations by consultants. The closure of Meriden in 1973 arose from a consultant's recommendation; the present consultants' report suggested the closure of two of the three plants. It was hard to believe that, with the present oil crisis, there was not a demand worldwide for a utility motorcycle. Before any irrevocable decisions were taken, there should be further discussions with the workers in NVT to find ways of preserving their jobs. It would be intolerable to cut them adrift and offer no alternative livelihood. It would be wrong for the Government to shelter behind an exegesis of the text of the various letters which had been written; there was a clear moral commitment to help those who had worked with such enthusiasm on behalf of the industry.
On the other hand, it was strongly argued that the view of the consultants, the IDAB, IDV and the Secretary of State for Industry could not lightly be set aside. The motorcycle industry had received over £20 million of support in the last three years; the £50 million which would be needed to develop the strategy favoured by NVT would be but the first instalment of an endless series of demands for further funds; even this strategy would only serve to keep 3,000 jobs in being at a time when one million were unemployed. It would be an irresponsible and frivolous use of public funds to invest in an industry with so little prospect of success; the money could be deployed with better advantage to create jobs in industries with a more promising future, particularly those in development areas. If NVT collapsed, unemployment in the Wolverhampton and Birmingham areas would rise by about 1 per cent; but there were prospects that at least the Small Heath factory would continue in operation. Although the strategy of "segment retreat" had been criticised, it was only right to concentrate effort where profits could be earned. German industry had prospered by exploiting "segment retreat", concentrating on those sectors in which they were competent and experienced, and neglecting others.

In subsequent discussion, the following main points were made -

a. It might be possible to salvage some part of the motorcycle industry by supporting the Meriden Co-operative and undertaking to acquire the assets of NVT if they were offered for sale by a receiver. On the other hand, it was strongly argued that it was essential to give no undertakings in this sense, and that any proposal for further help to the motorcycle industry should first be submitted by the Secretary of State for Industry to IDV.

b. It was important to emphasise in any statement that the Government were not abandoning the West Midlands workers, but would do their best to help through retraining schemes and assistance in finding new jobs. Consideration might be given to a special redundancy scheme to supplement the payments which NVT might make, if they were forced to reduce their workforce.

c. On road safety grounds, the days of large capacity motorcycles were numbered. It would be preferable for the Government to support research and development - perhaps in a Government research establishment or through the National Research Development Corporation - with the aim of producing a low capacity machine suitable for the British market.
The NVT workers had made it plain that, if the Government denied them help, they would picket the Meriden works and prevent the marketing of its products. There was no question of worker solidarity, but every man was fighting for his own job. The Meriden Co-operative needed some alternative vehicle for marketing its motorcycles, and Lord Ryder might be invited to consider how this might be done; the National Enterprise Board (NEB) might have a role to play.

THE PRIME MINISTER, summing up the discussion, said that there was a clear consensus in the Cabinet in support of the proposals of C(75) 86. If as a result of the refusal of any further financial assistance to the motorcycle industry, NVT went into receivership, it would be open to the Secretary of State for Industry to bring proposals to IDV. He should, at the same time in consultation with Lord Ryder, consider contingency plans for marketing the products of the Meriden Co-operative, if NVT were to fail. The Secretary of State should prepare a statement to reflect the views of the Cabinet, and circulate it to IDV before it was delivered. The statement should, in particular, draw attention to the past failings of the management of the motorcycle industry; the views of the consultants; and the help available to individuals made redundant. The statement should be made on Thursday, 31 July, and the Secretary of State should publish, at the same time, the full report by the consultants (with sensitive and confidential information deleted).

The Cabinet -

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

2. Agreed that no further Government funds should be made available to the motorcycle industry.

3. Invited the Secretary of State for Industry to prepare and circulate to the Ministerial Committee on Industrial Development a statement to Parliament on the lines indicated in the summing up; and, in consultation with the Lord President, to arrange to make the statement on Thursday 31 July.

4. Invited the Secretary of State for Industry to publish the report by the Boston Consulting Group Limited on the motorcycle industry (with confidential and sensitive information deleted) as a Parliamentary paper at the time he made his statement.
5. Invited the Secretary of State for Industry to bring before the Ministerial Committee on Industrial Development any further proposals for assistance to the motorcycle industry if, as a result of the decisions they had reached, Norton Villiers Triumph Limited went into receivership.

Cabinet Office

30 July 1975
CONCLUSIONS of a Meeting of the Cabinet held at Chequers on MONDAY 4 AUGUST 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 Peter Shore MP
Secretary of State for Trade

The Rt Hon William Ross MP
Secretary of State for Scotland

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

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 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 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 Lord Shepherd
Lord Privy Seal

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

Sir Kenneth Berrill
Central Policy Review Staff

SECRETARIAT

Sir John Hunt
Mr J A Hamilton
Mr J A Marshall
Mr A M Macpherson

SUBJECT

PUBLIC EXPENDITURE PRIORITIES
The Cabinet considered a memorandum on Public Expenditure Priorities prepared by the Treasury and the Central Policy Review Staff (C(75) 82). Their discussion and the conclusions reached are recorded separately.
The Cabinet had before them a note by the Secretary of the Cabinet (C(75) 82) covering a memorandum by the Treasury and the Central Policy Review Staff on public expenditure priorities; a memorandum by the Secretary of State for Energy (C(75) 83) on economic strategy; a note by the Chancellor of the Exchequer (C(75) 87) on public expenditure; and a memorandum by the Secretary of State for the Environment (C(75) 88) on resource allocation and public expenditure 1974-79.

THE PRIME MINISTER said that the Cabinet had agreed on 22 May that, since there was a possibility that the figures in the last Public Expenditure White Paper (Cmnd 5879) for 1978-79 might need to be reduced by some £2,000 million, the Public Expenditure Survey should proceed in a way which would present the options available to achieve this end, without any prejudice to what might finally be decided. On 14 July they had discussed the Medium-Term Economic Assessment and the problem of the allocation of resources between the public and private sectors. No quantified decisions had been reached at that meeting, but subsequently the Cabinet had agreed the statement made by the Chancellor of the Exchequer in the economic debate on 21 July when he said that "in carrying the reassessment of spending programmes forward beyond 1976-77, there would at best be very little room for overall growth beyond the reduced level for that year". This meant that the Government were now on record that the figures in the January 1975 White Paper would need to be severely cut back. The final stage in the Cabinet's consideration of public expenditure priorities would come in the autumn when precise decisions would be required about the figures. They did not have to reach final decisions that day, although their discussion would provide them with the opportunity for moving towards a consensus of view on priorities in expenditure at a time when stringent economies were required. The management of public expenditure had become increasingly sophisticated over the years, and in discussing this subject Ministers
should distinguish between expenditure on goods and services, transfer payments, regional aid and assistance to industry, and the acquisition of assets. The note by the Chancellor of the Exchequer (C(75) 87) was a helpful description of the main ways in which the claims of public expenditure and the public sector on the economy might be considered.

Sir Kenneth Berrill said that the memorandum by the Treasury and the Central Policy Review Staff (C(75) 82) suggested that the constraints on total public expenditure up to 1978-79 would be very tight and that this made it all the more important to take correct decisions over priorities. The present difficulties arose because of the very rapid increase of about 20 per cent in cost terms which had occurred in public expenditure between 1972-73 and 1974-75. During the same period there had been no increase in the Gross Domestic Product (GDP) (if account was taken of the worsening of the terms of trade). Because taxation had not been increased sufficiently to meet the whole of this rise in expenditure, it had been necessary to increase the Public Sector Borrowing Requirement (PSBR) to about £10,000 million, which was about 10 per cent of the GDP. At a time of relatively low industrial investment and high consumer saving, this was manageable; but when the economy began to pick up, the public sector could not borrow the money which would be needed for productive investment, and it would be necessary therefore to reduce the PSBR by, say, a half over three years. If this were not done, the balance of payments deficit would worsen and interest rates would have to be raised. To do it, however, would involve either higher taxation, which would of itself exercise a strong inflationary pressure and have unwelcome political side effects, or a sizable reduction in public expenditure, or some combination of the two. If the Government were to keep public expenditure at a constant level over the next two or three years, they had to make a searching scrutiny of each area of expenditure. Spending on some items - the servicing of the national debt for example - would have to continue, come what may; but over the remainder of the field there would have to be overwhelming reasons before any individual spending programme could be exempted from reduction. In the past two years the largest increases in public expenditure had been in transfer payments. Ministers had already agreed to eliminate subsidies to nationalised industry prices and to phase out food subsidies over a period of years. It would now be necessary to review priorities for other transfer payments, and to see how far these could be directed to helping the neediest by being more selective. Unless reductions could be agreed in social security and related benefits and in housing subsidies, there would be major pressure on all other items of expenditure. A reappraisal of expenditure on goods and services should be a major element in a review of priorities. After inflation, the Government's main objectives in the management of the economy over the next two or three years should be to improve the balance of payments and to
increase productive investment in industry. Given these objectives they would need to pay close attention to public expenditure priorities in every other sphere, including those programmes which were largely in the hands of local authorities.

THE CHANCELLOR OF THE EXCHEQUER said that as a preliminary to the Cabinet's discussion of public expenditure he wished to clear up a number of questions which had been raised on previous occasions. First, there were the different ways of looking at public expenditure:

a. The public sector's direct use of resources. A distinction should be made between i. the direct use of resources by the public sector, ii. the requirements of the "prior claims" (i.e. the balance of payments and productive investment) and iii. the use of resources to meet the claims of personal consumption. In the year 1978-79, assuming an annual rate of growth of 3 per cent, additional resources of about £1,550 million should be available. Of this estimated amount, £500 million would need to go to close the deficit in the balance of payments, £500 million to productive investment (without which the assumed growth rate would not be achieved), leaving the remaining £550 million for the public sector and increased private consumption. On present plans public expenditure would increase by 12\% - 2 per cent a year on average, allowing an average annual increase of only 1 per cent for private consumption.

b. Impact on taxation. This had to be adjusted to keep the economy in balance according to the level and distribution of public expenditure that might be agreed. The main question was: how much of their income were people prepared to allow the Government to spend for them and on them rather than deciding for themselves how to spend? On present public expenditure plans, if indirect taxation were increased in line with inflation, income tax would need to go up to 45p in the pound. When graduated national insurance contributions were added, this would mean that the average family would pay 50p in the pound of any additional earnings to the State. In 1955, the two-child family paid 33 per cent marginal tax rate when they reached 1\(\frac{2}{3}\) of average earnings. Today they paid 35 per cent at half average earnings. In 1955, such a family on average earnings paid 16 per cent in tax, today it paid 29 per cent. It was a continuing source of grievance to many workpeople, as members of the Cabinet would know from their own constituencies, that they were subject to such high taxes.
c. Public sector borrowing requirement. The PSBR was the gap between the public sector's cash outgoings for all purposes and its receipts from taxation and other public sector revenues. At present it was equivalent to about 10 per cent of Gross National Product (GNP). The cost of financing this burden of debt amounted to roughly £2,000 million annually. A PSBR of this size was acceptable in a recession, but as the economy picked up, there would be a greater demand for investment funds and less private savings, which would reduce the funds available for public sector borrowing. It would be essential to reduce public sector borrowing to what would be needed for capital formation, and the acquisition of existing assets.

d. Manpower. There was a further aspect of public expenditure which should not be overlooked, and that was the extent to which manpower was being drawn into the public services away from productive employment. Between 1966 and 1973 employment in the public services had increased by about 700,000.

There had been a growth of about 6 per cent in public expenditure in 1973-74, financed by borrowing from the banks with a resulting inflationary increase in the money supply. In 1974-75 there had been an increase of 8 per cent, financed by borrowing and by increased taxation. In the current year the Government planned to cut the rate of growth to 1½ per cent; and next year a further reduction was intended. The Government's aim thereafter would be to contain public expenditure at the lower level, and the Cabinet had already agreed that it would be necessary to find ways in which public expenditure could be reduced. They were now for the first time considering the priorities which should be given to different areas of expenditure. There were in particular five areas on which a broad sense of Ministerial views was needed for the completion of the Public Expenditure Survey.

i. Size of the contingency reserve. Last year the Cabinet had agreed that there should be a larger contingency reserve. This year the reserve had already been exceeded by some £200 million, and further demands would have to be met in respect of help to industry, changes in programmes of expenditure, and debt charges. The contingency reserve might well be larger, and more strenuous attempts should be made to cost those items which were likely to be a charge upon it.
ii. Open-ended commitments. Attention should be paid to open-ended programmes of expenditure - social security payments (where the question of changing from the historic basis would need consideration), housing (where enormous unplanned increases could occur), aid to industry and support for agricultural prices.

iii. Payment of benefits. It would be necessary to decide whether social security benefits should be paid more selectively on the basis of need, rather than universally as at present.

iv. Economic growth and consumption. The question here was how far public expenditure should be devoted to the increase of economic growth (eg through industrial regeneration) and how far to the distribution of the fruits of growth through the social wage. The National Economic Development Council had recently agreed that nationalised industry investment should not be used as a demand management tool. The Economic Policy Committee (EC) had recently been considering the capital expenditure programmes of the industries but had not yet completed their task. The industries had been asked to make cuts of about £125 million in 1976-77 as part of the cuts announced in April in the Budget speech. EC had approved the commitment of up to 85 per cent of the capital programmes for 1977-78 (70 per cent for British Rail) and 70 per cent of the programmes for 1978-79 (with no commitment at all on telecommunications). This left 15 per cent and 30 per cent uncommitted, and it would be for the Cabinet to decide later in the expenditure review how far, if at all, this margin should be cut. Aid to private industry was costing over £1,000 million and raised the question whether some more selective approach was desirable - although neither civil servants nor Ministers were well qualified to make the judgments greater selectivity would require. There might be a case for more sectoral aid to industry, as with textiles. A move might be desirable towards the Swedish system of retraining, which could involve more expenditure on the regeneration of industry at the expense of cuts elsewhere.

v. Social expenditure. The Government lacked a systematic approach to the problems of social expenditure, and on the relative priority of expenditure on cash payments and on social capital.

In the past, public expenditure reviews had been based on the assumption that certain areas were sacrosanct. This year there could be no "sanctuaries" of any description. If there were to be a draconian programme of cuts, Ministers should also decide the
priority areas for expansion when growth became possible. This required that all programmes should be reviewed thoroughly. It should be the aim to reduce the PSBR by half, so that it represented less than 5 per cent of the GDP.

In the course of discussion the following points were made in relation to individual areas of expenditure.

It was argued that the expenditure on industrial and regional support in the United Kingdom was higher than was customary in other developed countries, but only because the banking system in the United Kingdom was less involved in the financing of industry than was the case in some other Western European countries particularly France and Germany. There was an argument for trying to organise joint enterprises between the public and private sector to provide the finance needed by industry, along the lines which had been tried in France and Italy. Such an approach deserved further study — although the results in other countries had not always been universally applauded, being stigmatised as the product of avant garde amateur economists. The Government should see what could be done to channel more money into industrial investment, through the banks and existing institutions — Finance for Industry had already made a step forward to fill the gap in the medium-term borrowing market, and would be a catalyst for the banking system — and there was a case for trying to channel private savings, including those of the small saver, into investment also. Priority should be given to expenditure which would help improve industrial productivity, including the provision of retraining facilities — although it was pointed out that retraining served no purpose if jobs were not available for the retrained men. It was argued that the Government must act to maintain key manufacturing capacity through the slump, and not allow it to be lost. Investment in new capacity — by any means whatever — should be a top priority, and if necessary there should be investment controls to ensure that such investment took place. More generally, it was argued that public expenditure which contributed to industrial growth should have priority over expenditure devoted to the "social wage".

It was suggested that demographic factors alone would justify cuts in educational expenditure, although it was recognised that the programme could not necessarily bear a proportionate cut. Young people who had trained hard as teachers could not simply be told to take other work: it would destroy their morale and the morale of other people working in the education service. But there was a strong case for reducing the administrative overburden. Sizable reductions would
involve difficult decisions on nursery education for example, and it would be necessary to carry the Party. It had to be recognised that the national birthrate was not the most relevant underlying factor; new schools had to be provided in expanding areas, even if there were no overall growth in the school population. In particular more money would be needed for the 16-19 age group, which was still expanding. One possible economy would be for universities to operate for more than three short terms each year - the degree of use of their capital facilities represented a clear waste of resources and would be quite unacceptable in industry. It was also argued that, whatever else was cut, there should be no change in the pupil/teacher ratio and no reduction in expenditure on the 16-18 age group who leave school and have no full-time educational contact.

It was argued that a distinction should be drawn between expenditure on transport subsidies and expenditure on productive investment. Already the subsidies to buses were being reduced, and this process would continue; and it was intended to reduce the subsidy to British Rail as far as possible. There was also a strong case for reducing expenditure on the provision and maintenance of secondary roads, although it was argued that the programme for national roads was now down to about the right level and should not be cut further. There might be a case for seeking economies by integrating the uses of various forms of public transport at present provided separately - postal, school buses, library services.

It was argued on the one hand that, if various programmes of social expenditure were being cut, it would be politically impossible not to make some reduction also in defence spending. Against this, it was strongly argued that if there were any substantial cuts beyond those made as a result of the last Defence Review, the standing of the United Kingdom abroad would be diminished. If it were questioned whether such a change mattered, the answer was that it could have a direct effect both upon the level of our exports, and on the Government's ability to borrow overseas. Furthermore, the present time, when the Government was involved in delicate negotiations on force reductions in central Europe, was the worst possible moment to give away a major bargaining counter by announcing that significant reductions were to be made in defence spending by the United Kingdom. It was pointed out that in the last White Paper on Public Expenditure (Cmnd 5879) defence was the only programme which showed a reduction, all other programmes showing increases of from 29-52 per cent. The United States and our other allies in the North Atlantic Treaty Organisation (NATO) had been seriously disquieted by the previous cuts, and further cuts would be liable to alienate them.
There was a wide measure of support for the view that the provision of more houses must continue to have a very high priority. A distinction needed to be drawn between housing investment and housing subsidies; there was a strong case for cutting the latter, even though any immediate move in this direction had had to be postponed in order to give priority to the counter-inflation policy. Both public and private house building made a demand on resources; and both led to a burden on the Exchequer, either by way of housing subsidies or by way of tax relief on mortgage payments. The last, although not technically public expenditure, was an area in which some easement to the public sector borrowing requirement might be achieved by reducing the tax relief subsidy to the private house purchaser. There was increasing evidence of a desire amongst all sections of the community for home ownership as opposed to renting. The whole strategy of council house building needed re-examination. One way of increasing housing investment might be by promoting joint savings schemes, to allow potential council-house tenants to buy their own house.

It was argued that, although the biggest recent increase in public expenditure had been in transfers, it was not true to say that there had been a vast bonanza in social security. Between 1973 and 1974 the increase in social security expenditure accounted for only one-tenth of the increase in total public expenditure, far more being attributable to subsidies. Nor could it be said that pensioners were now doing better in relation to the rest of the population than ever before. Last year pensions had been about 22 per cent of the average national wage, but they had now fallen back to the 1960's level of 18-19 per cent. Part of the reason for this was that upratings were based on the historic rather than the forecast method, which meant that they took account of past increases in the Retail Prices Index (RPI), so that during a period of rising inflation the pensioners lost out - an arrangement which had been accepted on the understanding that, when the rate of inflation declined the continued use of the historic method would restore the position. To switch to the forecast method when the increase in the RPI began to decline would be seen as sharp practice; but it was argued that some compromise arrangement might be possible. Expenditure on social security was in any case largely a function of demographic changes and of the state of the economy - 1 million unemployed meant an inevitable £840 million being paid out in unemployment benefit. On the other hand it was argued that while there might be a case for giving priority to cash benefits, there was no reason to regard capital expenditure on social services as being in a special category. Moreover there was much to be said for a much greater degree of selectivity in providing cash benefits.
It was argued that high priority should be given to the problems of inner city areas. These were complex matters, affecting housing, schools, hospitals and roads among others: there was a case for setting up a team to consider the whole question. The Community Services programme was also relevant here: race problems and inner city problems were not coterminous, but they did overlap, particularly in some English conurbations. There might be an argument for more Government corporate management.

It was maintained that here too, physical investment for the social services, in such capital assets as hospitals, was of lower priority than cash benefits; but it was pointed out that hospital spending had been cut by 20 per cent already, and that any further cuts would mean a complete moratorium on all further new hospital building. The policy of replacing smaller hospitals by large district general hospitals was questioned, both on the ground that the essential human touch might be lost and because the cost per bed might be high, given that the large hospitals were often equipped to a standard not needed for many of the patients.

To the extent that investment by the nationalised industries was a necessary part of the provision of essential industrial capacity it should have a high priority. It was, however, wrong to treat all nationalised industry investment as a homogeneous bloc. Some parts of it - the proposals for a massive increase in expenditure on telecommunications and the facilities for fast inter-city trains - were of a more questionable character, and should be scrutinised rigorously in the present exercise. They could not be grouped along with, investment in steel-making capacity for example.

It was accepted that it would not be possible, during the period under review, to achieve the Manifesto target of 0.7 per cent of the GNP for financial aid to developing countries: the present figure was 0.38 per cent. But as a minimum the figure should continue to move towards 0.7 per cent and not fall back. On grounds of self-interest alone, it would be bad for the United Kingdom economy if there were a general falling off in the provision of aid funds throughout the world.
There was broad agreement that spending by local government, presented an acute problem needing urgent action. At the meeting of the new Consultative Council the previous week, the local authority representatives had agreed to a standstill in the growth of their spending for the next financial year: this was of itself a considerable achievement, and to go further would require the introduction of new forms of control. It was pointed out that central Government expenditure had risen, in percentage terms, more than local authority expenditure; and that there were in any case great differences between different local authorities. The Rate Support Grant system was a blunt instrument, and the Government needed a means of achieving some finer tuning. There was some evidence of extravagance and waste at local level. The difficulty was that any more effective way of controlling local government expenditure would require statutory powers, and this raised major questions about the relationship between central and local government.

In further discussion it was argued that the problem of unemployment was central to the whole question of public expenditure. It was suggested that even the most cautious estimates of the likely changes in unemployment, rising to well over a million during the coming winter, and then falling, could endanger the whole of the Government's pay policy and hence the national economy overall. Some action on unemployment would be essential, and it would be desirable for Ministers to have a meeting in the autumn to review the situation and possibly to put forward measures to mitigate the problem. In particular, they should understand the choice between cuts in public expenditure and increased taxation. Some schemes for getting school-leavers into voluntary programmes of social work might well be justified for their psychological impact, even if their scale was not large. It was arguable that every proposal for a cut in public expenditure should be accompanied by some assessment of the effect upon employment which its acceptance would involve. It would in any case be essential to discuss the public expenditure cuts and the action the Government proposed to take on unemployment with the Trades Union Congress (TUC) and the Parliamentary Party. The TUC's document "The Development of the Social Contract" originally contained a figure of 500,000 as the aim the Government should adopt for the reduction of unemployment; and although the TUC had been persuaded to exclude that figure, the pressure for Government action was still there. It was recognised that, unless public expenditure and inflation were brought under control, employment would be seriously jeopardised. Nevertheless, it would be important to identify not only areas for cutting expenditure but priority areas for fuller reflation as soon as that became possible. It might be helpful if Ministers could agree a figure of unemployment which they thought was tolerable, and could have worked out the public expenditure implications of dealing with the situation when that figure was exceeded;
but against this it was argued that no unemployment figure was tolerable save that which was compatible with full employment. One presentational difficulty about the cuts under discussion was that they related to the years 1977-78 and 1978-79, whereas the unemployment problem was one for the immediate future. Ministers were right to be considering now the situation two or three years hence and constraining expenditure plans as necessary; but this did not help the short-term problem. It would be necessary to take the TUC into the Government's confidence, and let them see the magnitude of the problem the Government faced.

More generally the suggestion was made that the strategy underlying the proposals under discussion was a mistaken one. It aimed to achieve redeployment of resources when the upturn in the world economy got into its stride, and achieve this through unemployment, pay constraint, cuts in public expenditure and restraint in nationalised industry investment. Presumably it would be backed up by further devaluation of the pound in 1976 to sustain exports. This strategy ignored the fact that if unemployment was not below the one million level by 1977, the whole basis of the strategy would be invalid. It meant risking destruction of the country's industrial capacity, which would leave other countries free to step in when the boom came. The hole which was being created in the economy would simply lead to a short fevered boom followed by another collapse. The public expenditure priorities should be such as would cope with the recession and should be designed to maintain manufacturing capacity, to maintain employment in the public services, to reduce the impact of the cuts and the price increases on the less well off, and to save foreign exchange. If there were to be cuts it would be essential to publish the public expenditure figures, not as unique figures, but in the form of a wedge, with upper and lower limits.

In further discussion the following points were made:

a. It would be important for Cabinet to decide what were the areas in which they hoped to claim, at the next General Election, that they had made solid achievements. It was suggested that the right candidates for this would be housing investment and pensions, perhaps with housing as the top priority.

b. It was arguable that Cabinet should be considering, not solely priorities in public expenditure, but a mixture of adjustments in expenditure and adjustments in taxation. It was, for example, questionable whether tax relief on mortgage payments, and tax relief on life assurance premiums, should be left untouched while desirable social expenditure was reduced. It might be better to lower the starting point for the higher tax rates.
c. While a large Contingency Reserve might be desirable in order to ensure that sufficient provision had been made for unforeseen or unquantifiable expenditure, it was also argued that the reserve should be kept small lest potential claimants on it be encouraged to put forward expenditure proposals which otherwise would not see the light of day.

d. On present plans the Civil Service would need to increase by over 100,000 in 1976-77. This was not acceptable, and all Departments should be required to make do with their existing staff levels unless they could satisfy the Civil Service Department that it was impossible to find additional staff needed from within their existing complement. This matter now required a directive to be given to all Departments.

e. The timing and scale of the likely improvement in world trade was suspect. The macro-economic plans underlying the expenditure proposals envisaged a switch of £500 million into private investment; but it was not clear when or how this would take place, since investment was the last thing to respond to any stimulus given by the Government to the economy. General reflation was unlikely to occur until the latter part of 1976, so that investment might well not pick up until late 1977 or 1978. It was, however, pointed out that this was in fact the period when the expenditure cuts under discussion would bite, thus releasing the resources needed for an investment expansion.

f. If present trends continued, the time would come when there would be more private investment by British nationals overseas than was taking place in the United Kingdom. This phenomenon might bear examination.

g. The aim of the Chancellor of the Exchequer was to halve the public sector borrowing requirement, which meant reducing it from its present level of 10 per cent of GNP to 5 per cent by 1978-79. The cut proposed, however, would in fact bring it down to $2\frac{1}{2}$ per cent; and given that cutting public expenditure had no direct effect upon inflation or upon imports it was not obvious that the resources freed would find their way into exports.

THE CHANCELLOR OF THE EXCHEQUER, replying to the discussion, said that, for planning purposes, the public sector borrowing requirement was probably the least important of the possible approaches, since, being the residual of two very large quantities, it was extremely difficult to forecast. He was quite clear that the aim must be at least to stop borrowing for current expenditure. From the point of view of resource use and taxation,
the Cabinet faced four problems. First, was the problem of inflation: the recently agreed pay policy would, it was hoped, contain the position for the next 12 months; but if, because of high public expenditure, tax rates had to be increased sharply, there was always the danger that the trades unions would cease to co-operate in the voluntary pay policy. Secondly, there was the immediate problem of unemployment, of which he would welcome a discussion in September. It might be that some new clutch of measures would be needed early after the Recess to take the edge off the rising figures. Thirdly, there were structural distortions in the economy which would take time to correct. Fourthly, while it was vital to improve the country's industrial and economic performance, the Government must not make the mistake of basing their public expenditure plans on an improvement in performance which had not yet been achieved. The high spending and high borrowing of the last year was acceptable in the present situation; but it would be essential to correct it before the recovery in world trade occurred. When that would be was difficult to predict, and depended in part on the actions of other countries. On any reckoning, by 1977 the recovery should be well under way, and if adequate room were not made by cutting other demands the United Kingdom would suffer capacity restraints for meeting exports. Structural weaknesses in the country's industry could only be corrected by micro-economic means, in this connection the creation of the National Enterprise Board and the introduction of planning agreements would be a help, but, in addition, the Government must have a clearly defined industrial strategy by the end of this year. There was no real shortage of money for investment, 40 per cent of bank lending was for industrial purposes, but the institutions were lending less money and did not always take enough interest in the subsequent management of the businesses to whom they lent. The central problem was that at present industry did not want money for investment. One reason was the low return on investment because the use of capital assets in the United Kingdom was poor as compared with the use to which they were put in other countries. On investment by British nationals overseas, the total had fallen in the last year, and there had in fact been a net inflow into the United Kingdom, with more investment by overseas nationals than the reverse.

THE PRIME MINISTER, summing up the discussion, said that, while the Cabinet had reached no final decisions on public expenditure priorities they could authorise any further work needed and indicate for the guidance of officials any move towards a broad consensus on priorities which had become apparent in their exchange of views. The paper by the Treasury and the Central Policy Review Staff (C(75) 82) had provided a most useful background for the meeting, and a comparable document would in future be an essential element in the new procedure now adopted whereby Cabinet considered expenditure priorities in the period leading up to the completion by the Public Expenditure Survey Committee of their annual Report.
There was a general desire that the question of unemployment should be considered further at a meeting of Ministers in September, and careful attention would need to be given to the manpower implications of all policies coming before Ministers. The September meeting would need to be carefully prepared; and he would consider whether it should be a meeting of the full Cabinet or of a smaller group such as the Ministerial Committee on Economic Strategy. He would also consider further the suggestion that a Ministerial group should consider possible strategies for reflation when such action became appropriate, and he would arrange for the Secretary of the Cabinet to make the necessary arrangements. It was clear that reflationary action confined to Europe alone would be insufficient to revive world trade; this could only be achieved by steps which included action by the United States and Japan. The possibility of a five-power economic Summit had been mooted at the quadripartite lunch with President Ford, President Giscard and Chancellor Schmidt at the previous week's conference in Helsinki, and he would be discussing this idea with the Chancellor of the Exchequer and the Foreign and Commonwealth Secretary.

On public expenditure priorities, there was broad agreement that housing investment - which included the building of new houses and the acquisition of existing houses by local authorities - should have a high priority, as distinct from housing subsidies where economies might be sought. There was also support for the proposal that local authorities should build houses for purchase. High priority should also be accorded to dealing with the problems of inner city areas, and to industrial re-training. Differing views had been expressed on the priority to be given to social security cash benefits as compared with, say, capital investment in schools and hospitals; but there was considerable support for the view that there should be greater selectivity in the field of current expenditure in the social services. On low priorities, there was a general feeling that significant savings might be made in higher education and by economies in the administration of the education service. On transport expenditure there seemed the possibility of reducing expenditure on the provision and maintenance of secondary roads, although views were divided on this. These priorities did not of course mean that the areas of high priority should necessarily escape all cuts or that an unreasonable proportion of the savings should be found from the low priority areas; they would however provide guidance to officials on the Cabinet's broad approach.

There was general agreement that more direct control might be needed of local authority expenditure. The Department of the Environment already had work in hand on this problem; it should now be considered interdepartmentally by officials so that action might be taken when this was judged to be politically feasible.
It had also been suggested that there should be a review of the Social Services on lines comparable with the Defence Review carried out in 1974-75. This would present technical problems but should be undertaken through the machinery (MI3C 78 and 31) which had produced the Joint Approach to Social Policies. The results could not affect this year's Public Expenditure White Paper but should be available in the spring of 1976 and should cover the problem of selectivity in the social services. He would decide how to deal with the problems of the inner city areas after consultation with the Ministers concerned.

There was general support for the proposal that there should be a fundamental review of the growth of central and local bureaucracy, and of the possibility of reducing staff numbers, and that this should be linked to the consideration of providing somewhat rougher justice in terms of public administration. The Lord Privy Seal should prepare a plan for such a review, which should also cover the possibility of reducing waste in expenditure in both central and local government.

The Cabinet -

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

2. Invited the Chancellor of the Exchequer, in consultation with the other Ministers concerned, to arrange for their provisional views on public expenditure priorities to be taken into account in the further work on the Public Expenditure Survey.

3. Instructed the Secretary of the Cabinet to arrange for officials to consider and report on the problem of more direct control by central government of local authority expenditure.

4. Instructed the Secretary of the Cabinet to arrange for the machinery which had prepared the Joint Approach to Social Policies to undertake a review of the Social Services comparable in depth and scope with the Defence Review carried out during 1974-75.

5. Invited the Lord Privy Seal, in consultation with the Departments principally concerned, to arrange for a fundamental review of the growth of the bureaucracy in central and local government, with a view to reducing staff numbers and cutting out waste in expenditure.
6. Took note that the Prime Minister would consider the procedures for following up other points covered in their discussion.

Cabinet Office

6 August 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
MONDAY 22 SEPTEMBER 1975
at 3.30 pm

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

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 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 Reginald Prentice MP
Minister for Overseas Development

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 William Ross MP
Secretary of State for Scotland

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

The Rt Hon Fred Mulley MP
Secretary of State for Education and Science

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

SECRETARIAT

Sir John Hunt
Mr J A Marshall
Mr A M Macpherson

SUBJECT

MEASURES TO ALLEVIATE UNEMPLOYMENT
The Cabinet considered a memorandum by the Secretary of State for Employment (C(75) 95), a memorandum by the Secretary of State for the Environment (C(75) 94) and a memorandum by the Chancellor of the Exchequer (C(75) 96) on measures to alleviate unemployment.

THE PRIME MINISTER said that at the Cabinet meeting on 4 August the Chancellor of the Exchequer had referred to a need for a clutch of measures to take the edge off the rising figures of unemployment. There had been a discussion at a meeting of the Trades Union Congress (TUC)/Labour Party Liaison Committee earlier that day when Ministers had told TUC representatives of the Government’s intention to take steps to deal with the present high level of unemployment. It had been made clear to the TUC that these measures would not amount to a general reflation of the economy.

THE CHANCELLOR OF THE EXCHEQUER said that the unemployment figures had to be considered in the context of the present and prospective economic situation. The rate of increase in the unemployment figures appeared to be falling, but the figures would still continue to rise until the New Year, by which time the number of unemployed, seasonally adjusted, might be about 1.2 million. Therefore it was likely that the figures would level off and begin to decline. Domestic demand would probably increase in the fourth quarter of 1975; and world demand was already increasing, though more slowly than had previously been hoped. This would have a bearing on the rate at which unemployment began to decline. General reflation to reduce unemployment was not possible because of the adverse effect it would have on the United Kingdom’s balance of payments position. Indeed, he had to warn his colleagues that there might well be difficulty in financing the balance of payments deficit over the next four to five months. As de-stocking came to an end and industrial orders revived the balance of payments would inevitably worsen. The acceptance by the TUC of a £6 a week pay limit had encouraged foreign confidence but there could be no significant reflation of the economy until that limit was seen to be working. The scope for measures to take the peak off the unemployment figures was therefore limited by a number of considerations. The country could not afford a large increase in the present public sector borrowing requirement; and it would not be possible to increase employment by steps which had a damaging effect on the balance of payments. Moreover, the Government should avoid any steps which would impede the shift of resources into manufacturing investment in the medium term once the economy began to pick up again. Finally there should be no commitment to measures which would lead to increasing public expenditure either in the medium or long term. What was required therefore was a combination of measures which had a quick effect on unemployment and which could be swiftly brought to a close as unemployment declined with the recovery in the economy.
The possible steps which could be taken were discussed in his paper. The Government had already agreed that a subsidy to employers who took on school-leavers should be introduced from 1 November, and that proposal had become public knowledge. It was now proposed that this subsidy should be introduced from 20 October. The total cost of it would amount to £5 million, but against this should be offset the probable saving of £2.5 million in unemployment benefit. This should produce 35-40,000 extra jobs by Christmas, mainly for school-leavers. There had been widespread concern at the number of young people who were unable to find employment on leaving school, and the Government's decision to introduce this step would be well received. The figure of £5 million was an estimate of take-up rather than a ceiling and he would be ready to accept a higher figure if necessary.

On the question whether the subsidy should be made available to employers in the public sector, he did not think there would be any difficulty so far as the nationalised industries were concerned; but it might be unwise to make the subsidy available to local authority employers in view of the Government's pressure on them to reduce their manpower costs.

A Work Creation scheme was proposed by the Manpower Services Commission. There had been no great enthusiasm for the proposal when it had previously been considered by Ministers, but it was clear that the TUC were very much in favour of it, and the expenditure of £30 million would create some 15,000 new jobs fairly swiftly. Against this there would be offset a sum of between £9 million and £12 million in unemployment benefit together with a flow-back of revenue in the form of taxation.

His proposals that £20 million of further work should be undertaken on the building and modernisation of factories on Government and industrial estates, and that a further £50 million should be allocated under section 8 of the Industry Act for the acceleration of capital projects by individual firms and for further industry schemes, would not have a marked effect on unemployment in the short term, but the measures were relevant to the development of the Government's longer-term industrial strategy and they would be supported by the TUC who were keen to see an expansion of investment in manufacturing industry. The industrial investment proposals, which he and the Secretary of State for Industry had been considering jointly, were highly cost effective, and he was ready to consider further schemes which might increase total expenditure proposed from £70 million to £100 million.

There had already been a major expansion of the training programmes in the public and private sectors, but he was willing to consider the further proposals which the Secretary of State for Employment had put forward after consultation with the Training
Services Agency (TSA). These consisted of an expansion of existing schemes and the introduction of new schemes mainly for the training of young persons in apprenticeships or otherwise at a cost of £20 million; the uprating of the training allowances when unemployment benefit was increased in November at a cost of £5 million; and the increase of the training allowance for young persons at a cost of £1 1/2 million. The temporary employment subsidy already operated in the assisted areas and applied to redundancies of 50 or more. He had no objection to the extension of the subsidy to the non-assisted areas, but it would be prudent to review the operation of the scheme after the first three months to see if any revision was necessary. There had been a larger number of applications for the subsidy, but a smaller number of approvals, than had been expected when the scheme was started, and this might indicate that the money was not being spent as the Government intended.

On the proposals for additional expenditure to reduce unemployment in the construction industry, on house improvement and new house building and renovation, one difficulty was that in the past they had been very slow to start and they tended to go on long after the need for them had passed. The experience of the previous Government had been that they were very difficult to control.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the suggested figure of 1.2 million as the unemployment peak was optimistic, and the figure might well reach 1.5 million. He felt that measures under discussion were in the nature of palliatives to deal with the immediate situation and that it would be necessary for the Cabinet to have a further discussion before long about the medium-term prospect. Nevertheless the present measures would, if adopted in full, go far to abolish the problem of the unemployment of school-leavers on which there was deep feeling throughout the country. He was in favour of applying the recruitment subsidy to all public sector employers, including local authorities. It would not however be possible to announce details of the scheme until mid-October, although the Government should confirm in general terms that the scheme would be put into operation at an early date. He was very much in favour of the Work Creation proposals of the Manpower Services Commission because they would have an immediate effect on unemployment. They were strongly supported by the Commission and by the TUC, and the projects chosen would favour the employment of young people. He appreciated that local authorities might feel resentment that they were being asked to operate the scheme at the same time as they were being forced to cut down on their own manpower, but the Work Creation scheme was not compulsory. As for the temporary employment subsidy, there was a strong case for extending it to cover the non-assisted areas. Indeed, the amount of the subsidy could be increased to £20 and the scheme would still be self-financing. He appreciated that the European Commission might raise difficulties, but
he hoped that these would not be regarded as insurmountable. His proposals to expand the training schemes as suggested by the TSA had not been cleared in detail with the Treasury, but he hoped that that could be done the following day if they received broad approval from Cabinet. The TSA had been asked to produce the most effective schemes that they could think of for reducing the level of unemployment, and their suggestions had his strong support.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he was opposed to the Work Creation scheme. Some of the projects that had been proposed were of a trivial nature and would be received with derision not only by the local authorities but by the unions representing local authority employees. The TUC's enthusiasm for the scheme was not shared by some of the constituent unions. A scheme for the expenditure of £30 million to create employment should be designed to bring the Government some political advantage, and to result in a worthwhile contribution to the nation's wealth. The Government should give priority to work that would help the construction industry, and he suggested that money should be devoted in 1975-76 and 1976-77 to housing improvements. Extra sums allocated now could prevent substantial redundancies in local authority direct labour departments and his Department had effective ways of ensuring that the money really was spent in these years and not allowed to spill over into later years.

In discussion the following points were made -

a. Recruitment subsidy

There would be difficulty in extending the payment of the subsidy to local authorities. A substantial part of local authority wage costs were already met by the Government in the form of the rate support grant, and it would be difficult simultaneously to persuade authorities to cut down on manpower as part of general public expenditure retrenchment, and to encourage them to increase the recruitment of school-leavers by the payment of a special subsidy. This difficulty would not arise in the case of the nationalised industries, and there was no reason why the scheme should not extend to them.

b. Temporary employment subsidy

The proposal would create difficulties with the European Commission since the extension of the subsidy to non-assisted areas would be in conflict with Article 92 of the Treaty of Rome. The best chance of persuading the Commission to acquiesce would be to engage in consultation with them but this would stand in the way of an early announcement. In the
absence of such consultations, there was a risk that the Government's action to extend the scheme might be the subject of litigation in the European Court.

c. Work Creation scheme

Some of the projects proposed by the Manpower Services Commission could be criticised as trivial and the Commission should be asked to review their list. This review should take account of the desirability of helping the urban programme. The Cabinet had previously agreed to the need to give priority to the inner city areas, and the sort of work which could be undertaken as part of the urban programme could easily be started and quickly wound up. It might be possible, for example, to put in hand various minor works for the improvement of housing (for example the redecoration of old people's houses) and for improvements to educational and Health Service buildings. Local authorities and Health Service authorities could readily suggest a number of imaginative schemes which would help sorely pressed staff in the field of the personal social services; and wherever possible the projects should be linked with training schemes. It was arguable that, although the introduction of the scheme should not be held up, the Manpower Services Commission should be asked to consider possible improvements to the scheme in case it became desirable later to extend it over a period of 18 months for the creation of up to 50,000 jobs.

Work Creation schemes were already in operation in Northern Ireland and any proposals agreed by the Chancellor of the Exchequer and the Secretary of State for Employment would need to be applied in Northern Ireland in such a way as to fit into schemes already in operation. In Scotland the local authorities already had experience of winter work programmes which had been financed by way of a 100 per cent grant. Scottish local authorities were ready with a number of schemes for house improvements if money became available.

d. Advance factory and investment programme

An extension of the advance factory programme would both create industrial assets and have a beneficial short-term effect on the construction industry. Work could be put in hand fairly quickly. Further expenditure on industrial investment schemes, although medium-term in effect, was also a sensible use of resources.
e. "Buy British" campaign

Other members of the European Economic Community had no hesitation in pressing public authorities whose expenditure they controlled to favour domestic industries in their purchasing programmes, and the Government should press individuals and organisations to "Buy British" wherever possible.

f. Encouragement of school-leavers to stay on at school

In view of the unfavourable employment prospects for school-leavers, young people about to leave school should be encouraged to stay on for further educational courses. This would entail some additional expenditure by local authorities, possibly of the order of a further £5 million on the rate support grant, but there would be an offset in unemployment benefit unclaimed.

g. Selective increases in public expenditure

There was a strong case for approving a selective increase in public expenditure to assist the construction industry. Many local authorities had stopped all work on house improvements, and similar work on educational and Health Service building had been severely curtailed by recent decisions on public expenditure. The aim should be to create the maximum number of jobs as quickly as possible, and to ensure that any schemes undertaken could be wound up quickly when the need for them was past. The Government should therefore approve an increase in public expenditure on housing, particularly in the inner city areas, in such a way as to make the maximum number of new jobs available in the construction industry. Ministers would be able to suggest a number of possible schemes for the consideration of the Chancellor of the Exchequer.

h. Overall strategy

It was argued that, while the present measures were welcome, it would be wrong to rely, as the Government's present policy did, on an upturn in world economic activity to provide the way out of the country's current trouble. There was little sign of any such upturn at present: and the United Kingdom's problems were both different and worse than those of other countries. We needed a wall of protection behind which the modernisation of British industry could take place on the basis of a bigger investment programme than anything so far
contemplated. The strategy should therefore be considered anew after the statement on unemployment measures had been made. Against this it was strongly argued that any such move to protectionist policies would be highly dangerous, and could start an international beggar-my-neighbour race.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that a statement should be made by the Chancellor of the Exchequer on Wednesday 24 September announcing the measures which the Government proposed to take to mitigate the present high level of unemployment. These measures would consist of the following. First, the payment of a recruitment subsidy of £5 per head per week for 26 weeks to employers taking on school-leavers who had not previously obtained a job. This was estimated to cost £5 million and would start from 20 October. The statement would be in general terms, leaving details of the scheme to be announced later. The subsidy should extend to the nationalised industries, but not to the local authorities given the other financial restraints which the Government was seeking to impose on them. Secondly, the expenditure of £30 million on a Work Creation scheme. While the scheme should be biased towards the use of young people it should not be confined to them. There had been some reservations about the list of projects put forward by the Manpower Services Commission in their proposals, and the Commission should be urged to give priority from the outset to projects which would assist in urban renewal, including minor housing improvements (e.g., painting) and minor improvements to educational and Health Service buildings. The Commission should also be encouraged to bear in mind the training needs of the young people who would be engaged in many of the projects. Thirdly, the three proposals by the TSA to the Secretary of State for Employment to increase the adult training allowance at a cost of £2½ million, to increase the lead which training allowance for young persons had over the corresponding rate of benefit at a cost of £1½ million, and to expand existing training schemes and introduce new schemes mainly for the training of young persons at a cost of £20 million. Details of the last two, however, had not been discussed at the official level with the Treasury, and the Cabinet's approval was subject to the satisfactory outcome of such discussions the following day. Fourthly, the extension of the temporary employment subsidy scheme to cover the whole country at a cost of £7½ million. As a safeguard, to ensure that the subsidy was being applied as the Government intended, the Secretary of State for Employment and the Chancellor of the Exchequer would review the operation of the scheme at an early date. Fifthly, the improvement of the Employment Transfer Scheme at a cost of a further £3 million. Sixthly, further work at a cost of £20 million on the building and modernisation of factories on Government and industrial estates, as part of the advance factory programme. Seventhly, a further £50 million under
section C of the Industry Act for the acceleration of capital projects by individual firms and for further industry schemes. Furthermore, Cabinet agreed that the £70 million for the last two items could be increased to £100 million if suitable proposals could be identified. Finally, the Cabinet agreed that the statement should indicate that Ministers were considering some selective increases in expenditure on construction in the public sector and that details of these increases would be given within the next two or three weeks.

The statement would be drafted by the Chancellor of the Exchequer in consultation with the Secretary of State for Employment and would be cleared as necessary with the other Ministers concerned. There would be no time to consult the European Commission about the Government's decision to extend the temporary employment subsidy to the whole country. The Commission should however be informed of the Government's decision just before it was made public; and it should be stressed to them that the payment of the subsidy on a nationwide basis was a temporary measure, that it took account of present reality, viz the high level of unemployment outside the assisted areas, and that its operation would be reviewed very quickly. The European Community were already well disposed towards the Government's recent handling of economic affairs, and the Commission might be persuaded that the present temporary measure was much less objectionable than some other steps which might have been forced on the Government.

The proposal by the Secretary of State for Employment that encouragement should be given to organisations and individuals to "Buy British" would be considered later in the context of proposals which the Secretary of State for Trade had yet to submit to his colleagues. The exhortation to "Buy British" was of particular relevance to organisations in the public sector.

The Cabinet -

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

2. Invited the Chancellor of the Exchequer, in consultation with the Secretary of State for Employment, to draft and clear with the other Ministers concerned the terms of an announcement to be made on Wednesday 24 September describing the measures which the Cabinet had approved.
3. Invited the Secretary of State for Employment to arrange for the introduction of a scheme, at an estimated cost of £5 million, for paying a recruitment subsidy of £5 per head per week to employers in the private sector and to the nationalised industries taking on school-leavers who had not previously been employed.

4. Agreed that the Work Creation scheme proposed by the Manpower Services Commission should be implemented at a cost of £30 million; but that the Secretary of State for Employment should press the Commission to give priority to projects which would assist urban renewal, including minor improvements to housing and health and education buildings, and to keep in mind the training needs of the young people involved.

5. Agreed that the proposals by the Training Services Agency for increasing training allowances and expanding training schemes should be implemented at an estimated cost of £24 million.

6. Agreed that the temporary employment subsidy should be extended to the whole country at an estimated additional cost of £7½ million; and invited the Secretary of State for Employment and the Chancellor of the Exchequer to review the operation of the scheme at an early date.

7. Agreed that the Employment Transfer Scheme should be improved at a cost of £3 million.

8. Agreed that up to a further £100 million should be spent on the advance factory programme and on industrial investment schemes.

9. Invited the Chancellor of the Exchequer, in consultation with the Ministers principally concerned, to consider what selective increases in construction in the public sector should be approved.

10. Invited the Minister of State for Foreign and Commonwealth Affairs, having regard to what the Prime Minister had said in his summing up, to arrange for the European Commission to be informed of the Government's decision to extend the temporary employment subsidy to cover the whole country.
Conclusions

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 25 SEPTEMBER 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
(In the Chair for Item 3)

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 Lord Shepherd
Lord Privy Seal

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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 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 John Silkin MP
Minister for Planning and Local
Government
THE FOLLOWING WERE ALSO PRESENT

Mr Denis Howell MP
Minister for Sport and Recreation
Department of the Environment
(Item 1)

Mr Walter Harrison MP
Treasurer of the Household
(Item 2)

SECRETARIAT

Sir John Hunt
Mr P Benner
Mr A D Gordon-Brown
(Items 1-3)
(Items 1 and 2)

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INQUIRY INTO GAMBLING

1. The Cabinet had before them a memorandum by the Secretary of State for the Home Department (C(75) 99) about the establishment of an inquiry into gambling.

THE HOME SECRETARY said that at their meeting on 2 July 1975 the Home Affairs Committee had agreed that there was a strong case for setting up an inquiry into gambling, and the main question now at issue was whether it should take the form of a Royal Commission or of a Select Committee. There had been no comprehensive review of the subject since the Royal Commission of 1949-51, and the present legislation dated in the main from the early sixties. There had of late years been a very large proliferation of the gambling industry, and its turnover was now in the region of £2500 million a year. It was run almost entirely for private profit (since the Tote was making little impact) and there had been a rapid growth of large combines straddling the different forms of gambling. The social impact of gambling was great and the financial contribution which accrued to desirable social objectives was slight. The law was now inadequate to deal with the situation, and although there had of late years been some piecemeal legislation, it had been possible to do no more than tinker with the problems. The time was therefore ripe for a thorough inquiry. In his view the complexity of the subject matter, the important social implications and the presence in the industry of powerful pressure groups made it necessary that the inquiry should be carried out by an independent body with the status of a Royal Commission. It should be asked to produce an early interim report on the idea of a levy on the football pools, since this was a subject where urgent action was needed.

In discussion, there was general agreement that a wide ranging inquiry was necessary. It was also generally agreed that since the question of financial support for sport was now urgent - in particular the horse racing industry was in danger of collapse - this aspect should be dealt with separately and to a shorter time scale. The recently announced inquiry into the financing of the arts, which were already receiving far greater financial support than was sport, strengthened the case for expediting this part of the inquiry. It was indeed for consideration whether the terms of reference should not allow recommendations to be made about the use of income from a pools levy, or any other similar source of funds, for artistic as well as sporting purposes.

In favour of a Select Committee, it was argued that since it was a considerably less remote type of body than a Royal Commission it might command greater public confidence and be more likely to produce workable recommendations. Moreover, it would do its work much more quickly and would probably open the way to
legislation during the lifetime of the present Parliament: Royal Commissions were notoriously slow. Moreover, a Select Committee sitting in public would serve a useful public educative purpose and would enable Parliament to perform the kind of investigative function which was carried out so effectively by the United States Congress.

In favour of a Royal Commission it was argued that, although a Select Committee was often extremely effective when dealing with a fairly limited subject, it was less so when dealing with a very complex and wide-ranging matter such as gambling. A Royal Commission with a well chosen membership would have a better chance of success. Moreover, a Royal Commission need not be unduly slow, particularly if the chairmen were carefully chosen; and, like a Select Committee, it could perform a useful educative function if it met in public. There were powerful vested interests in the gambling industry which would be highly resistant to investigation; and this pointed to a body with the prestige of a Royal Commission, which would also be particularly well placed to resist the intensive lobbying to which it would be exposed. Moreover, recommendations by a Select Committee, should they prove embarrassing to the Government, would be more difficult to shelve or vary than those of a Royal Commission; and there was the immediate practical difficulty of manning a Select Committee, given the present very heavy pressures on the time of the types of backbench Member of Parliament who would be suitable.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that there should be a wide ranging inquiry into gambling and that an early interim report should be sought on the question of financial support for sport by means of a levy on football pools or otherwise. It would be undesirable to widen this part of the inquiry so that it covered the arts; there would be a serious risk of embarrassing recommendations, and in any case this part of the field was already being dealt with through the inquiry which he had asked the Chancellor of the Duchy of Lancaster to undertake. On balance, the Cabinet considered that the inquiry should be carried out by a Royal Commission rather than by a Select Committee. But there were unsatisfactory features sometimes associated with the work of Royal Commissions which should if possible be avoided; and much would depend on finding a suitable chairman. The Home Secretary, in consultation with the other Ministers concerned, should make recommendations to him about membership as soon as possible.
The Cabinet –

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

2. Invited the Home Secretary, in consultation with the other Ministers concerned, to be guided accordingly.

2. The Cabinet considered a memorandum by the Lord President of the Council and the Lord Privy Seal (C(75) 98) on the completion of the present legislative programme.

THE LORD PRESIDENT OF THE COUNCIL said that at the start of the Session the Government had embarked on an over-large programme, which had been added to throughout the year. 57 Bills had already been placed on the Statute Book, but there was now acute congestion in the House of Lords because of the number of Bills remaining to be completed in that House. In the summer the Chief Whip had met the Opposition Whips, who had agreed that the Lords would sit alone during the present week, and had undertaken to do their best to ensure that the remaining Lords stages of all outstanding Bills were completed by 7 November.

The Chief Whip had entered into a personal understanding that, provided the new Session started on 12 November, no major Government Bills would be introduced next Session after Easter unless in an emergency or by agreement. While the official Opposition in the Lords would do their best to get outstanding Bills through, there could be no certainty about the form in which the Lords would pass these Bills. Problems might arise on three Bills in particular. On the Trade Union and Labour Relations (Amendment) Bill, he and the Secretary of State for Employment had tried unsuccessfully to reason with Lord Goodman, who seemed determined to persist with his amendments relating to the Press and would probably get majority support. There might also be a majority in the Lords for retaining unacceptable amendments to the Housing Finance (Special Provisions) Bill. Difficulties were possible, though less likely, on the Industry and Petroleum and Submarine Pipelines Bills. A special problem arose on the Community Land Bill, which would leave the Commons early in the week beginning 13 October, allowing little time for all stages in the Lords and any exchanges of messages between the two Houses. The Opposition in the Lords would do their best to keep to the timetable, but could give no guarantee that there would be no damaging amendments to the Bill. The possibility of using the
Parliament Act to pass the Community Land Bill next Session in an acceptable form would depend upon its having been sent to the Lords at least a month before the end of the present Session. This would not be possible if the Session were prorogued on 7 November, and it would be necessary to decide soon whether to prorogue on that date or to prolong the Session for a week. The Queen was keeping open dates in the weeks beginning 10 and 17 November as possible dates for the State Opening of the new Session, but delay in reaching a decision would cause problems in connection with the State Visit of President Nyerere. Action under the Parliament Act would ensure that the Community Land Bill was passed into law by the end of next Session. The alternative would be an amending Bill next Session to put right any damaging Lords amendments; but if the Lords continued to make difficulties the eventual passage of the Community Land Bill into law in an acceptable form might take up to a year longer than under the Parliament Act. On the other hand, an extension of the present Session for a week would reduce the time available for Government legislation next Session.

THE LORD PRIVY SEAL said that he had held two frank discussions with the Leader of the Opposition in the Lords. There was no question of obstruction, but Conservative leaders could no longer control backbench peers as effectively as in the past. The Community Land Bill could not be completed in the Lords until 5 November. There might be a need for more than one exchange of messages between the two Houses on this Bill, which would not be possible if the Session ended on 7 November. The fact that the Parliament Act would not be available if the Session ended then might encourage some peers to obstruct the Community Land Bill and to disagree with Commons messages; the ability to use the Parliament Act if necessary would help to avoid such a risk. His judgment was that it should be possible to get through all the other outstanding Bills without difficulty except for Trade Union and Labour Relations (Amendment) and Housing Finance (Special Provisions). Confrontation was the more likely on the former, and if this were taken first there would be a better chance that the Lords would allow the latter through in the form the Government wished. Given extra flexibility in the timetable, to allow time for exchanges between the two Houses, there was a fair chance of completing all outstanding Bills satisfactorily, since the Lords might well decide at the last available moment that a direct clash with the Commons over one provision of the Trade Union and Labour Relations (Amendment) Bill would be unwise. But if the Session ended on 7 November the Trade Union and Labour Relations (Amendment) Bill was unlikely to be completed in an acceptable form, and there could be considerable difficulty in completing the Community Land Bill satisfactorily.
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THE DEPUTY CHIEF WHIP said that great efforts had been made by the Whips in recent months to enable the Government's legislative business to be completed by 7 November and he hoped it would not be thought necessary to lose the results of these efforts by extending the Session. This would delay progress on next Session's programme - which the Government had undertaken to manage better - by increasing the number of Bills which could not be started until after Christmas.

In discussion of the Community Land Bill, the point was made that to proceed by way of an amending Bill next Session to put right any unacceptable Lords amendments, rather than to make use of the Parliament Act, would create fatally damaging uncertainty in the land market and have harmful effects on the housing programme. The Lords might wreck the amending Bill in its turn, but local authorities and others concerned with land must be able to make their plans on the basis of a firm Government policy; some Conservative local authorities were delaying plans to implement this legislation pending Royal Assent, and further delay could create serious difficulties in bringing it into operation. Speed of enactment was therefore most important, the more so as the Community Land Bill was to be followed by the second part of the Government's proposals on land, Development Land Tax; and any delay would discourage Government supporters.

In discussion of the Trade Union and Labour Relations (Amendment) Bill, it was recalled that there had been concern among some Government supporters about the application of this Bill to the Press. To meet this concern Lord Houghton had moved amendments for the establishment of a code of conduct; but the Lords had preferred Lord Goodman's amendments, which amounted to the application of the Conservative Industrial Relations Act to a single trade union. Following discussions with editors and Government supporters it was now proposed to invite the Commons to restore Lord Houghton's amendments, and to insert express references to the code dealing with the rights of editors and with access to the Press by non-union contributors. Lord Goodman was likely to persist with his amendments giving the code force of law, and would probably obtain majority support. If enough time was available for exchanges of messages between the two Houses it was just possible that in the end the Lords would accept the improved version of Lord Houghton's amendments; but there could be no question of the Government's accepting the principle of a legally enforceable code.

In further discussion, it was suggested that the Lords were creating a serious constitutional situation by refusing in successive Sessions to accept amendment of the law on trade union and labour relations to which there had been specific commitments in both the 1974
Manifestos and by insisting on their amendments to the Employment Protection and other Bills. The Queen's Speech should make clear that the Government would not tolerate such interference by the Lords in its legislative plans. It was pointed out, however, that the Lords had not been unreasonably obstructive this Session; the main cause of difficulty was the late arrival of Bills from the Commons. None of the amendments which the Lords had recently carried against the Government on the Employment Protection and Submarine and Petroleum Pipelines Bills was of great political significance. Moreover it would be most unwise for the Government to make a statement of intent to deal with the House of Lords without having first decided what to do.

The following points were made in further discussion -

a. It would be necessary to renew the Prevention of Terrorism (Temporary Provisions) Act before its expiry on 28 November. A promise had been made that if such a second renewal became necessary this would be done by statute and not by order. It would be desirable to be able to debate an order renewing the present Act for a few months on the same day as the Second Reading of the new Bill, but there might be difficulty about doing this by 28 November if the present Session was extended. This problem would need further discussion between Ministers concerned.

b. Following acceptance by the Commons of the deletion of Clause 4 of the Housing Finance (Special Provisions) Bill a general line in the Press had been that the Lords should accept this as a reasonable compromise. In any event the Government could not accept the Lords amendments which affected 400 Labour Councillors in local authorities other than Clay Cross, and the recoupment of lost rent income from the rates.

c. The Lords had made a number of unacceptable amendments to the Industry Bill which would have to be put right in the Commons; Government supporters would be very suspicious if the Government gave way on any of these amendments.

d. It was essential to avoid delay in getting the Petroleum and Submarine Pipelines Bill into operation.

e. It was hoped that the Lords would not insist on any amendments to the Scottish and Welsh Development Agency Bills of a kind which would necessitate amending Bills next Session.
THE PRIME MINISTER, summing up the discussion, said that the Government were committed to do their best to get through the outstanding Bills in an acceptable form; any delays would cause damaging uncertainty. It was also important to avoid over-loading next session's programme by having to reintroduce Bills which had not been satisfactorily completed this Session. The clear consensus of view in the Cabinet was that the present Session should be extended into the week beginning 10 November, since this would both make available the possibility of using the Parliament Act in relation to the Community Land Bill and also provide the extra flexibility needed to give the best hope of avoiding a clash between Lords and Commons and securing the enactment of all the outstanding Bills in an acceptable form.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. The Cabinet had before them a memorandum by the Secretary of State for Social Services (C(75) 100) proposing increases in National Health Service (NHS) dental and optical charges.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that dental and optical charges had remained frozen since the Cabinet's decision in September 1974 not to increase dental charges when dentists' fees were increased that year. When the NHS public expenditure allocation for 1975-76 had been reduced by £62½ million earlier in the present year, she had indicated that it would be impossible to accommodate the consequent shortfall in revenue if the charges remained frozen. The present position was that there was a shortfall of about £18 million which had to be made good; and, consequent on the recent award by the Doctors and Dentists Review Body and the recent recalculation of dentists' expenses, she had to make Regulations, coming into effect from 1 November, providing for a new scale of dental fees. These Regulations would have to be laid not later than the week beginning 6 October. To meet this position, she proposed that dental charges, which since 1971 had been on a cost-related basis, should revert to a flat-rate of £3.50 for a course of treatment (or the actual cost if that were less); but where dentures were provided the charge would vary up to a maximum of £12. In the case of optical charges, it was proposed to revert to the previous practice of charging patients the full cost of spectacle frames, together with flat-rate charges for lenses which would replace the present cost-related charges. The new charges would be £2.25 per single vision lens, £4.25 for a glass bifocal lens and £5.00 for a plastic bifocal lens. As part of the package, she proposed some relatively inexpensive concessions which, as well as being fully justified on merits, would be presentationally helpful. It was intended that children should become eligible for plastic lenses, for the provision of contact lenses without charge where they were clinically necessary and for a plastic spectacle frame as an alternative to the present unattractive models. She also had in mind to announce that negotiations were being opened with the interests concerned to try to provide more attractive NHS frames for adults, and that the Government intended when possible to amend the National Health Service Act 1951 so as to abolish optical charges for the registered blind and the registered partly sighted. Finally, the margin above the supplementary benefit level taken into account in assessing income for the purpose of determining exemption from charges would be increased from £1.50 to £2.50 a week.
In discussion, it was argued that there were strong practical and political objections to the proposed increases in NHS charges. These charges were a matter of quite unusual sensitivity, second only to rents, in the mind of the public generally and of Labour Party supporters in particular. This might not be a logical matter; but it was a fact, and the Government would ignore it at their peril. The immediate danger was that, particularly at a time of heavy and growing unemployment, an increase in NHS charges would cause a reaction which might endanger the Government’s counter-inflation policy as a whole. It would not only cause a hostile reaction amongst the Government’s supporters but would also give the Conservative Opposition a ready-made stick with which to beat the Government. It would, furthermore, tend to push more patients into the market for private glasses, where unacceptable profits were already being made. And it was surely false economy to do anything which would deter patients from seeking treatment at an early stage, when the trouble could often be dealt with simply and economically.

On the other hand it was strongly argued that the proposed increase in NHS charges followed directly from the decisions which the Cabinet had taken earlier in the year about public expenditure in 1976-77, and that it would be impossible to reopen one aspect of those decisions without reopening the whole field and provoking a general re-examination of priorities; for if there were any question of finding the £18 million from outside the agreed NHS allocation it would be arguable that there were other needs to which even higher priority should be attached. An increase in the charges would undoubtedly be highly unpopular; but all Ministers had had to take many unpopular decisions during recent months, and would have to go on doing so. If one particular issue were re-opened in this way it would also jeopardise the whole basis on which the Cabinet took their public expenditure decisions.

In further discussion, it was suggested that since an increase in NHS charges was politically highly undesirable it might be worth examining the prospects of finding the necessary savings from elsewhere in the NHS allocation. At their meeting on 4 August, the Cabinet had invited the Lord Privy Seal to arrange for a fundamental review of the growth of bureaucracy in central and local government, with a view to reducing staff numbers and cutting out waste and expenditure. Though the prospects could not be rated highly, it might be worth deferring a decision on NHS charges for long enough to enable the Lord Privy Seal, in consultation with the Secretaries of State for Social Services, for Scotland and for Wales, to consider what were the prospects of identifying administrative savings within the NHS sufficient to enable the proposed increase in charges to be dispensed with.
THE LORD PRESIDENT OF THE COUNCIL, summing up the discussion, said that, because of decisions taken by the Cabinet earlier in the year, a saving of £18 million had to be made in NHS expenditure in 1975-76. The question now before them was whether this should be secured by the proposed increase in NHS dental and optical charges, about which serious disquiet had been expressed by some members of the Cabinet, or whether some other method could be found from within the agreed NHS allocation. They would resume their discussion of this question on 16 October; and in the meantime the Secretaries of State for Social Services, Scotland and Wales and the Lord Privy Seal should consider urgently what other possibilities were open, and in particular whether economies on the necessary scale could be secured in the cost of administration. The detailed points about the exemption of children from optical charges which had been raised in discussion by the Secretary of State for Scotland and the Secretary of State for Education and Science should be pursued directly with the Secretary of State for Social Services.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Lord President of the Council and invited the Ministers concerned to be guided accordingly.

Cabinet Office

25 September 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 9 OCTOBER 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 Barbara Castle MP
Secretary of State for Social Services

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 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 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 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 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

**ALSO PRESENT**

Mr Peter Archer QC MP  
Solicitor General (Item 3)

**SECRETARIAT**

Sir John Hunt  
Mr G R Denman (Item 2)  
Mr P Benner (Item 1)  
Mr J A Hamilton (Item 3)  
Mr T F Brenchley (Item 2)  
Mr A M Macpherson (Item 3)  
Mr R P S Hughes (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. A provisional indication was also given of business during the remainder of the spillover, which would end during the week beginning 10 November. The new Session would be opened on Wednesday 19 November.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Council of Ministers (Foreign Affairs) of the European Economic Community meeting in Luxembourg on 6 and 7 October had had an intensive discussion of their relations with Spain. He had been disappointed by the attitude of the Irish, while the French had been markedly dispassionate and the Germans had said that they were sending their Ambassador back to Madrid the next day. Nevertheless, despite these differences after three hours of discussion an excellent statement had been agreed. In order to work together with our Community partners he had agreed to send our Ambassador back to Madrid but this would also be in the context of delivering a personal message about the future from the Prime Minister. It needed, however, in his view privately to be recognised that the result of the protests made to Spain would be a polarisation of views in that country and an increase in the chances of a violent outcome. Major Antunes, the Portuguese Foreign Minister, with whom he had discussed the situation in Luxembourg, considered that the prospects of a peaceful evolution in Spain were now more doubtful, at least so long as General Franco was alive.

THE FOREIGN AND COMMONWEALTH SECRETARY reported that the discussion which the Council had had with the Portuguese Foreign Minister had been more hopeful. The Community had agreed to make available loans of up to 180 million units of account (some $200 million) on a project basis until such time as a financial protocol was negotiated, Major Antunes had told him that the Portuguese people were getting tired of indiscipline and anarchy and had expressed confidence that his Government would get the rebellious troops under control.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had twice visited the United Nations since last reporting to the Cabinet. There had been some favourable developments. There had been no serious challenge to Israel's right to sit at the United Nations: and the United Kingdom could be satisfied that its efforts had contributed materially to avoiding this. It remained possible that there might be some minor challenge to Israeli credentials, but this would be of little
significance. More generally the whole atmosphere in the United Nations had been much improved compared with recent years and this reflected the easier relationship between producing and consuming nations. On the other hand he was seriously concerned about nuclear proliferation and in particular the consequences of the vast trade in plutonium which was in prospect as additional countries built nuclear reactors. The technology involved in the reprocessing of nuclear fuel was difficult so there were perhaps five years before this problem would become critical, and he felt that this time must be used to negotiate a new international convention on nuclear fuels which would bind those countries which had not been willing to sign the Non-Proliferation Treaty. We would have Canadian support on this, and perhaps American support. The attitude of the Soviet Union was so far reserved. The major difficulty would be with countries such as Venezuela, Brazil and India, which were within sight of having significant quantities of plutonium available from nuclear reactors.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the prospects for an early conclusion of the SALT II discussions now looked reasonably good, but that in itself was not enough. It was essential for the United States and the Soviet Union to go beyond it to a mutual agreement actually to reduce their stocks of weapons and warheads. He was encouraged by the deep sense of responsibility which he knew the American Secretary of State, Dr Kissinger, felt on this subject.

The Cabinet -

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

THE FOREIGN AND COMMONWEALTH SECRETARY said that the differences which had emerged in the Council on 7 October on our bid for separate representation at the Consumer/Producer Conference had been exaggerated by the Press. He had made clear to the Council three months ago our wish for separate British representation and he had repeated this over dinner in New York three weeks ago to the United States Secretary of State, Dr Kissinger, and the French Foreign Minister, M Sauvagnargues. He saw no reason for giving up this request. It was true that this insistence on our part had given rise to difficulties in the Community. These might dispose our Community partners to find a solution in the form of a better Community mandate perhaps making provision for a minimum support price. But while it was not possible at this stage to forecast the outcome, the issue of United Kingdom representation remained a separate question from the mandate and would require separate consideration by the Cabinet.
In discussion it was argued that it was doubtful whether we would achieve our aim of separate representation and it was therefore unwise to irritate our Community partners by persisting with this request. In these circumstances it was surely more important to place the emphasis on an agreed mandate.

On the other hand it was argued that, as the largest potential oil producer in the Community, the United Kingdom had substantially different interests from other Community members as indeed the Federal German Chancellor had several times recognised in recent months. Moreover, the scope of the dialogue had now been widened to include relationships with developing countries, policy on commodities and financial institutions and, given our many separate interests in these areas, it hardly seemed sufficient to be represented by Luxembourg, who would hold the Community Presidency, at a conference where Norway, for example, would have separate representation. In any case the more we pressed the issue of separate representation the greater the chance of others making concessions to achieve a mandate satisfactory to us.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet endorsed the line taken by the Foreign and Commonwealth Secretary. We should continue to do what we could to secure agreement on a Community mandate, but for the present at any rate we were right to press for separate United Kingdom representation.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion.
THE LAW ON PICKETING

3. The Cabinet had before them memoranda by the Secretary of State for Employment (C(75) 101), the Secretary of State for the Home Department (C(75) 102) and the Lord Chancellor (C(75) 103) on the law on picketing.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the Government's Election Manifesto in 1974 promised that the Employment Protection Bill would include new safeguards for peaceful picketing. There was widespread support within the Labour Party for such legislation, and at an earlier stage in the proceedings on the Bill an amendment had been put down to introduce a new clause the effect of which would have been to declare that the rights of pickets were not limited to attendance only, but also extended to seeking to persuade others (including those in vehicles) by peaceful means. The Home Secretary and he had been of the opinion that such a provision would help to clarify the law, but the provision was regarded as inadequate by the Government's supporters and by the Trades Union Congress (TUC), and the clause had been deleted in Commons Committee. At a later stage an amendment had been put down at the Report Stage of the Bill which would have conferred on pickets a limited right to obstruct vehicles in defined circumstances. Although this amendment had won considerable support, it was defeated in the Commons with the assistance of the Opposition. Since then he had had discussions with the TUC on how the law on picketing should be amended. They were not in favour of an amendment on the lines of that proposed on Report. What they had in mind was the reintroduction of the earlier amendment, but with the words "falling short of obstruction of the highway" deleted from the declaratory clause. In the opinion of the TUC such a provision would make it clear that the rights of pickets were not confined merely to attendance, and by remaining silent on the overlap between the law on obstruction and immunities for pickets it would allow the police and the courts some discretion as to whether and when picketing constituted an obstruction. The law on this point was confused and the Government ought to take steps to protect the rights of peaceful pickets as it had promised to do before it was elected. The proposal to amend the law on conspiracy was less directly relevant to the commitment in the Manifesto, but it was a matter about which serious concern had been expressed by the Government's supporters and by the TUC following the Shrewsbury pickets case. He proposed that there should be an amendment to the Employment Protection Bill which would have the effect of removing the sentencing anomaly which existed under section 3 of the Conspiracy and Protection of Property Act 1875. He appreciated the force of the argument that any alteration in the law on conspiracy should await the publication of the Report of the Law Commission and their draft Bill on the subject and not be undertaken piecemeal. But the Government's supporters had a strong sense of grievance about the present state of the law in this
matter and they would be resentful if the Government, having the opportunity provided by the Employment Protection Bill to change the law, took no advantage of this. He also appreciated that the state of the legislative programme in the House of Lords created difficulties over the introduction of these two amendments to the Bill at this stage. Nevertheless, on balance, he considered that the Government should be seen to be taking action on these matters, even if at the end of the day they were defeated on both points in the House of Lords.

THE HOME SECRETARY said that the proposed amendment to the law on picketing would be most unfortunate and would introduce a great deal of new ambiguity into the law on this matter. Moreover, it would place him as Home Secretary in a very difficult position in his relationship with the police. The precise rights of pickets under the law in every situation were not easy to define, and the Government's experience over the new clause 99 which had been introduced in the Employment Protection Bill showed how extremely difficult it was to legislate in this field. The best way forward was to promote discussions between the TUC and the police with a view to reaching agreement on a code of conduct that was satisfactory to all parties. The police were perfectly willing to enter into discussions with the TUC on such a code of conduct, but they would strongly resent the introduction of a change in the law on the lines proposed without any prior consultation and explanation. There was great strength of feeling throughout the police service (including the Police Federation) on the matter of picketing, and if the Government were to proceed with the suggested amendment this would greatly damage the relationship between them and the police. This was a delicate relationship even in normal times, but in present circumstances when there were so many violent threats to public order, it was of the highest importance that the Government should not do anything to impair it. If there was no possibility that the amendment could be carried in the House of Lords, the choice before the Cabinet was whether it would be preferable to antagonise the police by proceeding as the Secretary of State for Employment proposed, or the TUC by not attempting to amend the law. On the proposal to amend the law on conspiracy, there was little to be gained by a piecemeal amendment in advance of the publication of the Report of the Law Commission on conspiracy which was expected very early in 1976. This report would include a draft Bill on conspiracy, and he understood that it was very likely that the Law Commission's proposals on section 3 of the Conspiracy and Protection of Property Act 1875 would be acceptable both to the TUC and to the Labour Party Conference. Furthermore, a Bill to amend the law on conspiracy which had been drafted by the Law Commission would stand a very much better chance of passing through the House of Lords than the amendment under consideration. There was therefore a strong case for awaiting the publication of the Law Commission's report before steps were taken to change the law on this point.
THE LORD CHANCELLOR said that he endorsed what the Home Secretary had said about the serious effect which the proposed amendment of the law on picketing would have on the relationship between the Government and the police. Apart from this, he did not believe that this amendment of the law would be to the advantage of the pickets themselves. The proposed amendment would inevitably cause confusion since the clause would be differently interpreted by the police and the pickets. The effect would be to worsen relations between them, to antagonise a wide range of public opinion and to increase the risk of personal injury to the pickets themselves. The best way to enable peaceful but effective picketing to take place within the law was to continue the dialogue between the police and the TUC which was initiated before the General Election of February 1974. The arrangements which had been worked out at that time had greatly helped to reduce the possibility of friction during the miners’ strike. On the proposals to change the law on conspiracy, he was in close touch with the Law Commission and he believed that their proposals to amend the 1875 Act would be satisfactory to the Government and their supporters. There was no reason to suppose that the Law Commission’s Bill would be held up in its passage through Parliament. The proposed amendment would however be seen as an apologia for the Shrewsbury pickets and as such would certainly be rejected in the House of Lords. In political terms therefore the amendment would be wholly damaging and unjustifiable.

In discussion it was confirmed that the Report Stage of the Employment Protection Bill was due to be taken in the House of Lords the following week, on 13 and 14 October. If amendments were to be put down, this would have to be done quickly. Although it was possible for amendments to be considered at Third Reading in the Lords, this was unusual, and proposals by the Government to amend the Bill at that stage would almost certainly lead to a demand for it to be recommitted. This would mean that the Opposition would raise further points on the Bill, which could delay its return to the House of Commons until 6 November. At whatever stage the amendments were to be introduced, however, it was most unlikely that the House of Lords would pass them. Whatever the Government might feel about the way in which the Lords were using their powers on legislation, the fact was that a number of Bills were now seriously at risk in the House of Lords and any further upsets might mean that Bills could be delayed for a further year. There was for example a risk that the Community Land Bill might have to be handled under the provisions of the Parliament Act. This suggested that the Government would be wise not to proceed on picketing by way of amending the law by the Employment Protection Bill. On its own merits, the proposed new clause could raise serious difficulties. It purported to confer rights, but these were not defined, and it would cause serious difficulties both for the police and the courts in the exercise of their discretion as to
what constituted peaceful picketing in any given circumstances. It would be much better, and in the long run more satisfactory from all points of view, if the TUC and the police could be persuaded to renew their consultations on the drawing up of a code of conduct for picketing. The code which had been adopted during the National Union of Mineworkers' strike in 1974 laid down strict rules which ensured that potentially disruptive elements from outside the industry were rejected and dismissed from the scene. There would be great advantage if a similar code of conduct could be drawn up and endorsed by the TUC and the police as a practical guide which would help to ensure that occasions when it was necessary to put the law to the test were kept to the very minimum. A further point that should be taken into account was the position of members of Her Majesty's Forces who were called upon to move essential supplies during industrial disturbances. On such occasions, the Armed Services looked to the police for guidance as to their right to enter industrial or other premises which were being picketed by strikers. It was essential that there should be no doubt about this matter. Otherwise Servicemen might be unable to cross picket lines and this would place the Government in a wholly invidious position: this kind of problem was best tackled by a practical code of conduct.

It was however recognised that many of the Government's own supporters would be dismayed if steps were not taken to protect the lawful rights of peaceful pickets when an opportunity to do so presented itself in the Employment Protection Bill. The Government also owed it to the TUC to do what they could to meet their wishes on this question in view of the strong support which Congress was giving to the Government's economic policies. The TUC were willing to continue in discussion with the police authorities over a code of conduct, but they first wanted to be sure that the law was to be changed in such a way as to protect the rights of peaceful pickets. If the Government were to show willingness to change the law, this would certainly make it easier for the TUC to reach agreement on a code of conduct, but they did not consider that an agreed code on picketing was an acceptable substitute for a change in the law. It might however be possible to persuade the TUC that the drawing up of a code of conduct would probably be more to their advantage than the kind of provision which it was proposed to introduce by the Employment Protection Bill, and it was suggested that there should be further discussion of this matter in the TUC/Labour Party Liaison Committee. Thereafter, it might be possible for the Government to make a public statement to the effect that they had tried to change the law to provide greater safeguards for peaceful pickets; but had found that the subject was not amenable to being dealt with by way of legislation and that instead they were proposing that a code of conduct should be worked out between the police and the TUC,
On the proposal to introduce a change in the law on conspiracy it was argued that it would be better to wait until the Law Commission's draft Bill on conspiracy became available early in 1976. Even if the Government wished to, there was little likelihood of changing the law on conspiracy by way of trying to amend the Employment Protection Bill in the House of Lords.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the proposed amendment on picketing should not be tabled in the House of Lords but that instead the Secretary of State for Employment, in consultation with the Home Secretary, should try to establish informal discussions between the TUC and the police with a view to drawing up a suitable code of conduct. If no agreement could be reached between the police and the TUC, the Secretary of State for Employment would be free to bring the matter back to the Cabinet for them to consider further whether to legislate and if so in what form. As for conspiracy, the Cabinet agreed that it would be better to await the report of the Law Commission and the draft Bill which would be attached to it. He noted that this was likely to be received very early in 1976 and that it would be possible to include the Bill in next Session's programme. Meanwhile, a statement should be made during the passage of the Employment Protection Bill in the House of Lords that the Government proposed to proceed in this way. The Home Secretary would also take an early opportunity of making a statement in the House of Commons to the same effect. Care would need to be taken to ensure that there was no premature disclosure of the Law Commission's proposals to amend section 3 of the Conspiracy and Protection of Property Act 1875.

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, in consultation with the Home Secretary, to establish informal discussions between the Trades Union Congress and the police with a view to drawing up a suitable code of conduct on picketing.

3. Invited the Lord Privy Seal to arrange for a statement on the amendment of the law on conspiracy to be made in the House of Lords while the Employment Protection Bill was in progress there; and the Home Secretary to make a statement to the same effect in the House of Commons.
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 16 OCTOBER 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 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
SECRET

SECRETARIAT

Sir John Hunt
Mr G R Denman (Item 2)
Mr P Benner (Items 1 and 4)
Mr J A Hamilton (Item 3)
Mr T F Brenchley (Item 2)
Mr R G S Johnston (Item 3)
Mr W R Tomkys (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.

2. The Foreign and Commonwealth Secretary said that the lifting of the United States ban on arms deliveries to Turkey and the more settled political situation in Turkey following the elections cleared the way for a move by the Turkish Government towards a Cyprus settlement. Representations were being made in Ankara by the United States Government, by ourselves and by the European Community, designed to convince the Turkish Government that a very early move from them was now required. They must delay no further in indicating what territorial adjustments in Cyprus they were prepared to make: this could either be done direct to the Greek Cypriots or through whatever third party they might like to use. The Prime Minister had had useful discussion with the Prime Minister of Greece, Mr Karamanlis, whose visit to this country had been fruitful in several directions.

Latin America

The Foreign and Commonwealth Secretary said that we were continuing to strengthen our relations with the Latin American countries. The Venezuelan Foreign Minister had been pleased with the reception he had found here and as a result of his visit a consortium of British firms was being set up to tender for a very large contract in Venezuela. The Brazilian Foreign Minister was due here next week and he hoped that his colleagues would again be willing to give up some of their time to help to make the visit a success. He intended to keep up the momentum of exchanges of this kind.

The Cabinet -

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

Consumer/Producer Dialogue

The Foreign and Commonwealth Secretary reported on developments following our bid for separate representation at the meeting in December of the Conference on International Economic Co-operation. The Germans had leaked the contents of the letter which the Federal German Chancellor had sent the Prime Minister on 10 October and had hinted at a link between our position on energy and the degree to which they would meet our wishes on Community aid to non-associates. But they had not publicly made this link as indeed they would have been wrong to do; their reason...
for opposing our line on aid was simply that they were not prepared
to find the money. It was necessary to recall that when the French
had put forward at the meeting of the European Council in July their
proposals for the resumption of the consumer/producer dialogue,
they had not invited discussion of any of the details of their initiative.

"It was against this background that we had
made it clear that we would need separately
to be represented at the Conference. No
Community mandate worthy of the name had
emerged. But we would continue to work to
produce one. It was essential that we
should firmly maintain our bid."

The Japanese
viewed the view that the
Conference on International Economic Co-operation would turn out
to be as important as Bretton Woods. The energy field was an
area where we were enormously strong. We had immensely
valuable oil deposits in the North Sea, considerable supplies of
natural gas, a third of the world's nuclear energy production and
coal reserves lasting three hundred years. In these circumstances
it seemed absurd that we should be represented from the beginning
of next year by Luxembourg as holding the Community Presidency.
It was necessary that we should work for a commonly agreed
mandate, and in some areas to be covered by the Conference
on commodities considerable progress had been made. But little
progress had been made on energy and the different interests
between Member States in this field would make agreement on a
satisfactory mandate difficult. So far as aid was concerned the
results of the Council of Ministers (Development) had been dis­
appointing but energy had not been raised except by the French and
it was unlikely that this issue had played any part in the result.
So we should not be hesitant in pressing for a solution, as the French
had done in the past, which would fully safeguard our own interests.

In further discussion it was argued that agreement on a Community
mandate did not imply any abandonment of our interests or
objectives. What was necessary was that we should play a bigger
part in formulating a Community energy policy. On the other hand,
it was pointed out that we had taken the initiative in the Council of
Ministers (Energy) in putting forward proposals for a comparison
of national energy policies as a first step in the formulation of a
Community policy, and this initiative had been widely regarded as
constructive.

THE PRIME MINISTER, summing up a brief discussion, said that
in the absence so far of agreement on a satisfactory Community
mandate the Cabinet agreed that we should continue to stand firm
in our bid for separate United Kingdom representation at the
Conference.
for opposing our line on aid was simply that they were not prepared to find the money. It was necessary to recall that when the French had put forward at the meeting of the European Council in July their proposals for the resumption of the consumer/producer dialogue, they had not invited discussion of any of the details of their initiative. It was against this background that we had made it clear that, in the absence of a Community mandate satisfactory in all respects to us, we would need separately to be represented at the Conference. And, so far, no Community mandate worthy of the name had emerged. In these circumstances it was essential that we should firmly maintain our bid.

In discussion support was expressed for this view. The Japanese Foreign Minister had recently expressed the view that the Conference on International Economic Co-operation would turn out to be as important as Bretton Woods. The energy field was an area where we were enormously strong. We had immensely valuable oil deposits in the North Sea, considerable supplies of natural gas, a third of the world's nuclear energy production and coal reserves lasting three hundred years. In these circumstances it seemed absurd that we should be represented from the beginning of next year by Luxembourg as holding the Community Presidency. It was necessary that we should work for a commonly agreed mandate, and in some areas to be covered by the Conference eg commodities considerable progress had been made. But little progress had been made on energy and the different interests between Member States in this field would make agreement on a satisfactory mandate difficult. So far as aid was concerned the results of the Council of Ministers (Development) had been disappointing but energy had not been raised except by the French and it was unlikely that this issue had played any part in the result. So we should not be hesitant in pressing for a solution, as the French had done in the past, which would fully safeguard our own interests.

In further discussion it was argued that agreement on a Community mandate did not imply any abandonment of our interests or objectives. What was necessary was that we should play a bigger part in formulating a Community energy policy. On the other hand, it was pointed out that we had taken the initiative in the Council of Ministers (Energy) in putting forward proposals for a comparison of national energy policies as a first step in the formulation of a Community policy, and this initiative had been widely regarded as constructive.

THE PRIME MINISTER, summing up a brief discussion, said that in the absence so far of agreement on a satisfactory Community mandate the Cabinet agreed that we should continue to stand firm in our bid for separate United Kingdom representation at the Conference.
The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion.
3. The Cabinet considered a note by the Chancellor of the Exchequer and the Secretary of State for Industry (C(75) 106) to which was attached a draft paper on an approach to industrial strategy for circulation to the National Economic Development Council.

THE CHANCELLOR OF THE EXCHEQUER said that the Government were publicly committed to a discussion on an approach to industrial strategy at the meeting of the National Economic Development Council (NEDC) on 5 November. The Ministerial Committee on Economic Strategy (MES) had considered the question on 6 October and the draft paper took account of their views. The approach proposed did not aim to tackle the problems facing the British economy in the next twelve months; it was designed for the medium and long-term - 5 to 10 years ahead. Apart from a short period of growth in the 1930s, Britain's manufacturing industry had declined steadily since the 1870s, compared with its competitors; within recent times the decline had accelerated. As the economy recovered from the present slump demand would increase for imported manufactured goods; this would damage the balance of payments. In the Industry Act, and through planning agreements and the National Enterprise Board the Government would have valuable new instruments to influence the development of manufacturing industry. But they lacked a framework or strategy in which to use them. There was no way of deciding where priorities lay or relating policy for one industry to that of another over the medium-term. An industrial strategy had to be evolved, and closely linked with manpower planning in all its contexts. The Secretary of State for Employment would therefore be producing a parallel paper for the NEDC on manpower.

The new approach was designed to be flexible, and to engage the support and co-operation of management and unions with the Government. The national plan of 1965 and its predecessors had failed because they sought to be too comprehensive and were based too rigidly on unattainable growth targets. The kind of approach now proposed had been followed successfully in Scandinavia and Austria and by the Japanese and the French. The Government would develop criteria for deciding which industries deserved support because of their contribution to exports and import saving; because they were critically important to other industries; because they were doing well, or were potentially successful. The £100 million he had allocated in his last Budget to assist certain industries and improve manpower planning was an initial step towards the development now intended. Detailed criteria, and their application to major sectors of industry would be presented to the NEDC early in the New Year. In a normal year there would be three stages; first the Government would set out to the NEDC its medium term projection; then the sectors would receive further study from the
individual economic development committees starting from the kind of profile annexed to C(75) 106; and towards the end of the year, this work would be brought together at a meeting of the Council so that its findings might influence the Government's Budget decisions. The scheme would apply to the nationalised industries as well as to the private sector, and would complement planning agreements and the investment made by the National Enterprise Board (NEB). As the scheme developed, the trades unions and employers would become more closely involved with the Government in the planning of macro-economic policy.

MES had decided that the paper for the NEDC should be published at the time of circulation, to avoid premature and distorted disclosure. The Confederation of British Industry (CBI) and the Trades Union Congress (TUC) had both said that they opposed publication in advance of the NEDC discussion, and he believed that the Government should accept this view. It would however be right to publish the document after the meeting had taken place, or if there were any premature leak.

THE SECRETARY OF STATE FOR INDUSTRY said that, although the paper was not designed to deal with the immediate economic situation, a coherent industrial strategy was essential to beat the longer term problems. The paper had been written in the light of the pamphlet "Labour and Industry: The Next Steps" which had been prepared by the National Executive Committee of the Labour Party and endorsed by the Party Conference. The pamphlet recognised that there was no point in producing goods which could not be sold, and that industrial performance must take priority over social demands. Low productivity, over-manning and the interruption of production through industrial disputes were too prevalent in British industry; it had been demonstrated that, even with comparable plant, it took twice as many man-hours to make an identical car in Britain as in Europe. Through planning agreements and industrial democracy the support of the workforce must be engaged. The TUC had an essential part to play. He believed that the CBI as well as the TUC would lend their support to the new approach.

In discussion, it was suggested that, although the approach was generally correct, it would be wise to emphasise the preliminary nature of the proposals and to point out that the paper dealt with an approach to an industrial strategy rather than a strategy itself. That strategy must not be framed too narrowly; it would have to take account of the development of world trade and of the competitive position of British industry relative to other countries in world markets. In particular, the approach should be framed in the context of the European Economic Community (EEC), where all internal tariffs would be removed by 1977. The consequences for British industry of this new tariff situation should be covered in the paper.
Although the approach was confined to manufacturing industry, it would be unwise to concentrate wholly on visible trade and ignore the contribution of investment for example. The new sectoral approach should not be allowed to overshadow planning agreements nor to diminish the importance of Departmental planning at company level. It was debatable whether short-term and medium-term problems could be separated to the extent that had been suggested.

The paper rightly drew attention to the causes of past weakness, but it had to be recognised that there were many efficient industries, judged by world standards, and efficient firms within declining industries. The Government could greatly influence industrial development through public sector purchasing. The export potential of many industries, such as those engaged in making drugs or medical equipment, could be enhanced by positive initiative in this direction. The paper should be directed with greater effect to engaging the support of trades unionists. It was inevitable that improving the competitive posture of many industries would mean massive redeployment of labour. Even in those industries where the Government had invested heavily, productivity was below target. The paper should highlight the essential contribution of the trades unions to overcoming the weaknesses that were exposed.

There were other factors that needed to be mentioned: the link between macro-economic and micro-economic policies; the influence of cultural and social values in attitudes towards industry; the importance of integrating training and education in order to stimulate a better quality of management and better understanding by trade unionists of the problems involved.

On the other hand, it was argued that the paper required fundamental changes to make it acceptable and that it should not be put forward for discussion by the NEDC in November. In its present form it was turgid and diffuse, and bore little relevance either to the immediate economic problems or to the solutions, as opposed to the analysis, put forward in "Labour and Industry: The Next Steps". It was neither a plan nor a strategy; industrial strategy could not be divorced from social strategy and the emphasis of the present paper on the subordination of social objectives to industrial performance would dismay the Government’s supporters and alienate the TUC. There was too much emphasis on holding back expenditure and on the need to retain profits. It was wrong to aim for a consensus approach; the Government should strengthen and extend the powers of intervention which the Industry Bill provided. More resources should be given to the NEB, so that it might intervene more effectively in industry. There was no reference to import controls, although these had been an important element in the resurgence of industry in the 1930s. The part played by large firms in manipulating world trade was entirely ignored. The paper should
Therefore be rewritten in a wider context, which could relate longer term objectives to the immediate problems of the next six months; the Government's social strategy; the manpower implications; and the part to be played by the trades unions. Although a further postponement of the NEDC discussion would be difficult and embarrassing, the political consequences of going ahead with an inadequate and ill-considered policy were the more damaging. Whatever the Government said, the paper would be interpreted as a response to the present situation and would give rise to a great sense of disappointment.

In further discussion it was argued that, although the short-term problems were serious, action to improve the competitive position of British industry in the medium and long-term could not be postponed. The present weaknesses arose from a number of factors, including the framing of Government macro-economic policy without full regard to the effects on individual industries. The criticisms of detail could be met by adding a preface to the paper showing the link with short-term problems and by redrafting the main document to bring out the points made in the earlier part of the discussion. As for the fundamental objections to the content and the timing of publication, it had to be accepted that a further postponement would damage the Government's credibility with the CBI and the TUC. The nature of planning agreements and the powers entrusted to the NEB as set out in the Industry Bill now before Parliament had been determined by the Ministerial Committee on Industrial Development (IDV). It would be unwise to adopt a fiercely interventionist stance, since only by enlisting the co-operation of both sides of industry could a new approach to industrial strategy succeed. The aim must be to identify growth points in industry and to give them full backing; social factors were important, but a continuing decline in our industrial performance could only lead to a tattered and ineffective social programme.

THE PRIME MINISTER, summing up the discussion, said that the balance of opinion within the Cabinet was in favour of presenting a paper on industrial strategy for discussion by the NEDC at Chequers on 5 November which set out the basic approach described in C(75) 106. The Chancellor of the Exchequer and the Secretary of State for Industry should however jointly arrange for the present draft to be revised in the light of the discussion. In particular, it should be prefaced by a passage relating the medium and long-term objectives of industrial strategy to the immediate short-term economic problems. Many of the criticisms from those who accepted the basic approach were directed at omissions from the text or at the tone of the presentation, particularly at its likely impact on the Government's supporters and on the TUC. The new draft should bring out the need to set British industrial performance in an international context, with particular reference to EEC tariff policy. It should refer to the role of public procurement policy in promoting
exports. It should relate the industrial policy to the role of the NEB and planning agreements, as agreed by IDV and contained in the Industry Bill. Finally, the paper should bring out clearly the essential role of the trades unions, as well as of the Government and the CBI in developing the new economic strategy.

The revised paper should be considered by MES as early as possible in the following week, and subject to their clearance, should be circulated in the normal way to the NEDC. It would be best not to publish the paper before the NEDC meeting on 5 November, although publication might be necessary if a leak occurred. The Chancellor of the Exchequer and the Secretary of State for Industry, in consultation with the Secretary of State for Employment, should arrange for speaking notes for Ministers to be prepared and circulated to all members of the Government after clearance of the paper in MES so that all Ministers might be aware of what the new approach to industrial strategy was designed to achieve and be able to respond to any criticism.

The Cabinet -

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

2. Invited the Chancellor of the Exchequer and the Secretary of State for Industry to revise the draft paper on an approach to industrial strategy on the lines indicated in the summing up, and to circulate it to the Ministerial Committee on Economic Strategy for discussion in the following week.

3. Invited the Chancellor of the Exchequer and the Secretary of State for Industry, in consultation with the Secretary of State for Employment, to prepare speaking notes for Ministers on the implications of the new approach to industrial strategy and, subject to clearance of the paper by the Ministerial Committee on Economic Strategy, to circulate them as indicated in the Prime Minister's summing up.
4. The Cabinet considered the present difficulties of the National Health Service (NHS) and the desirability of establishing an inquiry into the NHS.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that there had recently been an unprecedently violent campaign against her personally, on the ground that, as a result of her policies, the NHS was about to collapse. The suggestion that a crisis of this nature was imminent was completely misleading. Much play had been made with the number of doctors alleged to be emigrating; but the fact was that, although the number leaving this country during the present year would show an increase, it would not approach the numbers who had been emigrating in the early sixties or give grounds for expecting a crisis. There were, however, many serious problems in the NHS. In particular, financial stringency meant that there were many areas where adequate provision could not be made. This was a source of low morale amongst staff, which was made all the worse by the fear that the inevitable search for economies would lead to redundancies. The position had been worsened by the effect of the recent administrative reorganisation of the NHS carried out by the previous Conservative Government. The new structure was inefficient, wasteful, frustrating and unnecessarily elaborate, particularly at the regional level. But a remedy was difficult to find because any suggestion that there might be another early restructuring would damage morale still further. All types of staff were becoming more assertive; but the difficulty was particularly acute with the doctors, where an immediate crisis was threatened by the dispute over junior doctors' pay. Here the position was that the doctors had been promised a new contract, to be effective from 1 October, which would include a new scheme of overtime payments. In deference to evidence from the Government about the application of pay policy, the Doctors and Dentists Review Body had accepted that the new contract must be priced within the cost of the present pay bill; and the result of this was that, while half the junior doctors would be better off, about one-third would actually lose financially. The junior doctors' negotiators had reluctantly agreed to the new contract on this basis; but then, following pressure from their constituents, had resciled from their agreement. If the Cabinet endorsed the view which had been expressed by the Secretary of State for Employment that in the interests of pay policy no concession should be made (for example, by allowing a "no detriment" provision, at a cost of £1.5 million), there would almost certainly be industrial action by the doctors who stood to lose, and consequent harm to patients. It would then be essential to make clear that the decision had not been taken personally by the Secretary of State for Social Services but was a decision reached by the Government collectively, having regard to the overriding importance of protecting the pay policy.
Another factor in the hostile attitude of the doctors was the situation in relation to pay beds and private practice. Here the doctors were particularly concerned about the proposal that, in conjunction with the phasing out of pay beds, additional powers should be taken to control the private sector. This was an area where she was under as much pressure from the NHS trade unions as from the doctors; the former took the view that, if they were to be able to prevent precipitate action by their members against private patients, there must be urgent legislative action both to phase out pay beds and to control the private sector so as to protect the interests of the NHS.

There had for some time been demands for an independent inquiry into the NHS. On the doctors' side, part of the motivation was the hope of showing that, given the restriction on the resources which the Government could provide, valuable additional resources might be obtained from the private sector. It was in her view unlikely that any independent committee would support this view. Other groups, in particular the nurses, were now supporting the demand for an inquiry. In present circumstances an inquiry had in her view become desirable, in particular on tactical grounds. It had come to occupy a position of major symbolic importance in the minds of the doctors, and it was doubtful whether the present difficulties with them could now be settled without an inquiry. Moreover, it was unlikely that, in the absence of an inquiry, staff in the NHS would be prepared to co-operate in securing badly needed administrative economies. She therefore recommended the establishment of an inquiry, which might have as its terms of reference: "To examine the financial and manpower resources available to the NHS, their use and management; and to make recommendations." It should not be asked to deal with pay beds and private practice, since these were matters which, in the interests of removing uncertainty with the minimum of delay, should be dealt with by direct discussions with the interests concerned.

In discussion of the pay of junior doctors, there was general agreement that, in view of the paramount importance of protecting the Government's pay policy, no concession involving any breach of that policy could be offered. The doctors could however be given a choice between standing by the agreement which had been reached but repudiated by them, and deferring the introduction of the new contract until April 1976. It would then be possible to include a no detriment clause, the cost of which would be set off against the total pay increase agreed for junior doctors as a whole.
In discussion of the desirability of an inquiry, it was argued that although it might produce little in the way of new information or helpful recommendations it was in present circumstances essential for tactical reasons that one should be set up. Moreover there was a prospect that it would at any rate be able to suggest some badly needed improvements in the present highly unsatisfactory administrative structure (and thus incidentally vindicate the warnings about the new structure which the Labour Party had given when in opposition). It might also be able to identify more precisely the grievances of some of the groups of NHS staff. The Government had little to fear from such an inquiry, and probably something to gain; for there had hitherto been little general realisation of how much had been done during the last eighteen months to provide additional resources for the NHS and in particular to restore some of the pay relativities which the previous Government had allowed to become depressed. The danger was that, if there were no inquiry, staff militancy would escalate, leading to industrial action; and that the public would then become alarmed, forcing the Government to make concessions - for example, to the junior medical staff - which would undermine pay policy. On the other hand, it was argued that an inquiry, though unlikely to produce valuable new ideas, could well make recommendations which would be unacceptable and embarrassing. Moreover, it would not necessarily raise the morale of the staff; the majority were going about their work conscientiously, and news of a further inquiry might merely lower their morale. And it was doubtful whether the question of private practice could be excluded from the inquiry - indeed, there might well be pressure on the Government to hold up their plans even for phasing out pay beds until the inquiry was complete.

In further discussion, it was argued that any inquiry should be aimed primarily at finding ways of meeting the needs of patients more effectively rather than at remedying the real or imagined grievances of NHS staff. Moreover, an inquiry must not be allowed to pre-empt the Government's decisions on public expenditure: since shortage of resources was one of the major problems of the NHS, there was an obvious risk that an inquiry would recommend major increases in the size of the health programme. This would be unacceptable and unfair to the Ministers responsible for other spending programmes; and it would be essential for the terms of reference to be framed so as to preclude this type of recommendation. It was desirable that the inquiry should deal with the future of private practice, since the presentation and timing of the Government's proposals on pay beds and private practice had given rise to not unjustifiable concern on the part of the medical profession.
THE PRIME MINISTER, summing up the discussion, said that the Cabinet had agreed that the junior doctors must not be allowed to breach the Government's pay policy. They should therefore be offered a choice between adhering to the agreement to which their leaders had assented, recognising that on this basis some individuals would gain financially and others lose, or postponing the introduction of a new contract until April 1976 on the basis which had been indicated in the Cabinet's discussion. In view of the unjustified personal attacks which were currently being made on the Secretary of State for Social Services, Ministers generally should take every opportunity of emphasising that the decision on junior doctors' pay was one which the Government had taken collectively in the light of the overriding importance of counter-inflation policy. On the wider question of the general state of the NHS, the Cabinet agreed in principle that it would be desirable in present circumstances to arrange for the early establishment of an independent inquiry. Its terms of reference would need careful thought: they should relate to the interests both of patients and of staff in the NHS; and while inviting recommendations about the use and management of the available resources, both material and manpower, they should exclude recommendations for increases in the financial resources provided by the Government. The Government would proceed on the lines already agreed with the phasing out of pay beds; but it was for further consideration what if anything the terms of reference should say about whether the inquiry could touch on the broader question of the future of private practice. The Cabinet had authorised him, in consultation with the Chancellor of the Exchequer and the Secretaries of State for Employment, Social Services, Scotland, Wales and Northern Ireland, to settle the precise wording of the terms of reference in the light of the points made in discussion. The same group of Ministers would also decide what form the inquiry should take - in particular whether it should be a Royal Commission or a Departmental inquiry - and what arrangements should be made for announcement of the Government's decisions. It was clear, in view of the stage reached in the negotiations with the medical profession, that a very early announcement was desirable.

The Cabinet -

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

Cabinet Office

16 October 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 23 OCTOBER 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

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

ALSO PRESENT

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

SECRETARIAT

Sir John Hunt
Mr G R Denman (Item 3)
Mr P Benner (Items 1 and 2)
Mr J A Hamilton (Item 4)
Mr T F Brenchley (Item 3)
Mr A D Gordon-Brown (Item 2)
Mr A M Macpherson (Item 4)
Mr W R Tomkys (Item 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 Cabinet had before them a memorandum by the Lord President of the Council (C(75) 104) to which were attached drafts of The Queen's Speeches on the Opening of the new Session and on the Prorogation of Parliament.

THE LORD PRESIDENT OF THE COUNCIL said that both draft Speeches were longer than usual, because they contained more explanation and attempted to relate specific proposals to the Government's general strategy. He understood that Speeches of this length would be acceptable to The Queen. The draft Opening Speech did not mention all the Bills in next Session's legislative programme but only the more important ones. Passages relating to some matters on which firm policy decisions had not yet been taken were in square brackets.

The Cabinet considered the draft Opening Speech paragraph by paragraph, and the following main points were made.

Paragraph 10. The Ministers concerned would consider further the wording of the passage relating to the courts dealing with those responsible for violence.

Paragraph 12. The opening sentence should refer to the attack on unemployment as well as inflation, and the final sentence should follow more closely the wording of the White Paper, "The Attack on Inflation". The reference to legislation on prices should be omitted, although a Prices Bill had a firm place in next Session's programme. The Lord President of the Council, in consultation with the Chancellor of the Exchequer, the Secretary of State for Employment and the Secretary of State for Prices and Consumer Protection, should prepare a redraft of this paragraph on the lines agreed in the discussion.

Following paragraph 13 a new paragraph should be inserted indicating the Government's intention to give effect to the proposals flowing from the Review of Civil Aviation Policy. It was not yet certain whether legislation would be required for this purpose, and the new paragraph should not be in terms which committed the Government to introducing such legislation, if required, in the course of the next Session.

Paragraph 20 should be retained. It was noted that the Lord President of the Council had in mind that the Committee to review Parliamentary practice and procedure might include some members from outside Parliament.
Paragraph 22. It was expected that the Bill on Agricultural Tied Cottages would be ready for introduction before Easter, and consultations with interested parties, including the National Farmers' Union and local authorities, were now in progress.

Paragraph 23. The Select Committee on the Wealth Tax was already four months late in reporting, and it was not certain whether provisions for a wealth tax could be included in next year's Finance Bill. The Chancellor of the Exchequer intended at the least to publish draft clauses during the course of next Session, but the wealth tax could not in any circumstances come into operation until 1977-78. The Opening Speech could therefore not contain any very precise commitment; and the best course would be for the somewhat vague and unsatisfactory sentence in the draft to be omitted and for the position to be explained by the Chancellor of the Exchequer in the Debate on the Address.

Paragraph 24. It was pointed out that the Cabinet had decided not to include legislation on the phasing out of pay beds and the control of private practice in the programme for 1975-76, but instead had put it at the top of the reserve list of Bills. It was for that reason that the draft Speech referred to "proposals" rather than to the introduction of legislation. The best course would be to keep the content of the programme under review as the Session proceeded and to introduce a Bill on pay beds if time permitted. The next Session would be unusually short because of the need to defer the date of its opening, and if a firm commitment to legislation were made at this stage it would be necessary to remove a Bill which was already in the programme in order to provide the necessary time; moreover it would involve giving legislation on pay beds higher priority than all the other reserve Bills, even though some of them were of considerable importance. On the other hand, it was argued that the political importance of legislation on pay beds had much increased since the Cabinet's discussion of the next Session's legislative programme. The Prime Minister had recently made clear to a deputation from the British Medical Association that the Government were not prepared to defer their plans for legislation on phasing out pay beds pending the Report of the Royal Commission on the National Health Service (NHS); and it was important that early action should be taken in order to remove the uncertainty which would otherwise ensue and to meet the strongly held views of the Government's supporters in Parliament and in the trade union movement. It was therefore desirable that The Queen's Speech should contain an undertaking that legislation on phasing out pay beds would be introduced in the course of the Session, but it would not be essential that the legislation should reach the Statute Book by the end of the Session or that it should be introduced at an early stage - indeed, the converse might be desirable, given that consultations on the Government's proposals were still in progress.
and might affect the timetable for phasing out, and that the issue was of importance in relation to the work of the Royal Commission on the NHS. The question what controls were needed over the private sector, and in particular whether they should relate to the quantity as well as the quality of private provision, was a quite separate one. It would be undesirable to give the impression that the Government were anticipating the outcome of the present consultations; and if legislation ultimately proved desirable, it might be best to promote a separate Bill rather than to deal with the matter in the legislation on pay beds. The draft Speech should therefore merely say that the consultations which were taking place about the powers needed to regulate the private sector would continue.

Paragraph 27. The October 1974 Manifesto had promised to replace the Official Secrets Acts by a measure to put the burden on public authorities to justify withholding information. The sentence on this subject should be retained, but should not commit the Government to the preparation of proposals to liberalise the law, as distinct from the practice, relating to official information.


The Cabinet agreed a number of other minor amendments to the draft Opening Speech.

The Cabinet approved the draft Prorogation Speech without amendment, subject to the addition of a sentence on the arrangements for giving assistance to Opposition Parties for their work in Parliament.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the drafts of the two Speeches, subject to the amendments and additions agreed in discussion, and to further consideration by the Ministers concerned of paragraphs 10 and 12 of the Opening Speech and of the additional paragraph on civil aviation. Paragraph 24 of the Opening Speech should be amended to indicate that legislation on phasing out pay beds would be introduced in the course of the Session; but the Cabinet had agreed that this did not imply that the Bill, once introduced, would necessarily reach the Statute Book by the end of the Session. There was therefore no decision at this stage that another Bill should be dropped from the programme already agreed in order to make room for it. As regards powers to control the private sector, the Speech would merely say that the consultations now in progress would continue. The Lord President of the Council should now arrange for revised drafts of the Speeches to be prepared and circulated to the Cabinet.
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 Lord Chancellor, the Secretary of State for Northern Ireland and the Attorney General, to consider the drafting of the second sentence of paragraph 10 of the Opening Speech.

3. Invited the Lord President of the Council, in consultation with the Chancellor of the Exchequer, the Secretary of State for Employment and the Secretary of State for Prices and Consumer Protection, to prepare a revised draft of paragraph 12 of the Opening Speech on the lines agreed in discussion.

4. Invited the Lord President of the Council, in consultation with the Secretary of State for Trade, to prepare a passage on civil aviation policy for insertion in the Opening Speech.

5. Invited the Lord President of the Council to circulate revised drafts of the Speeches for further consideration at an early meeting of the Cabinet.
3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the official visit by Crown Prince Fahd of Saudi Arabia had been very successful and useful results were expected.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the visit by the Brazilian Foreign Minister, Senor da Silveira, had also been successful, though it had inevitably been somewhat overshadowed by the simultaneous visit of the Crown Prince of Saudi Arabia.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Colony of Belize, which had been self-governing since 1964, now wanted to proceed to independence. The Commonwealth Prime Ministers at their last meeting in Jamaica had supported Belizean aspirations and had urged us to bring Belize to independence in the near future. We had no objection to this. The complication arose from a territorial claim to Belize by Guatemala which, although it had some arguable historic basis, was quite out of keeping with the spirit of the present age: and the consequent desire of Belize for a military guarantee. We were attempting to persuade Guatemala of the unreality of their claim and to secure in the United Nations a resolution which, while supporting Belizean independence, was not too humiliating to Guatemala. There was some risk that the Guatemalans might react by invading Belizean territory: indeed they had already been doing some sabre rattling. We had therefore sent a small reinforcement to Belize and might need further to reinforce the garrison. It was however his hope that the situation could be resolved without conflict. He had spoken about it to the Brazilian and Venezuelan Foreign Ministers in the course of the last week. The United States Government had been consulted some two months ago and had taken certain private steps to prevent an exacerbation of the situation. Assuming that Belize could be brought to independence within the next 12 months, the problem would remain of providing the newly independent country with some guarantee against subsequent invasion. We had a responsibility towards our dependent territories but could not continue this after independence, even though many Commonwealth countries would like us to do so. It was to be hoped that suitable international arrangements could be made. There was a further complication in the form of a Mexican claim to the territory of Belize: but this was at present a minor factor, particularly as the Mexican President and Foreign Minister were themselves divided on the issue.
In reply to a question THE FOREIGN AND COMMONWEALTH SECRETARY said that the Argentine Government found it necessary for internal reasons to maintain publicly their claim to the Falkland Islands. He had however had a talk with the Argentine Foreign Minister, Señor Robledo, about it recently and did not expect it to be brought to a head for the time being.

The Cabinet -

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

In reply to a question about reports that Japanese nuclear waste was to be processed in this country, THE SECRETARY OF STATE FOR ENERGY said that he had asked for the matter to be considered collectively by Ministers. His own view was that there was basically nothing secret about the proposal and that there would be advantage in making full information available to Parliament and the public.

The Cabinet -

2. Took note.
MEASURES TO ALLEVIATE UNEMPLOYMENT IN THE CONSTRUCTION INDUSTRY

Previous Reference: CC(75) 40th Conclusions

4. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 107) on measures to alleviate unemployment in the construction industry, within the context of the steps that had been agreed by the Cabinet at their meeting on 22 September.

THE CHANCELLOR OF THE EXCHEQUER said that the Cabinet had invited him on 22 September, in consultation with the Ministers principally concerned, to work out details of increases in expenditure on construction in the public sector which could be put in hand without delay as part of the measures the Government had then agreed to take to alleviate unemployment. The proposals for expenditure set out in the Annex to his paper had been discussed with Departments, and there had been intense competition for shares of the £30 million total. His proposals represented the best compromise that could be reached between conflicting claims within the priorities which had already been agreed by the Cabinet. Thus, the money would be spent on schemes with a substantial labour content, whether by commercial firms or direct labour organisations, within a carefully defined programme of work that would be relevant to the Government’s principal social priorities. Departments had agreed that these should be concentrated on the Assisted Areas, with special emphasis on inner city areas. In Scotland, Wales and Northern Ireland the money would be spent as the respective Secretaries of State decided. On the allocation for England, half would be spent on improvements to local authority housing and the remainder would be allocated equally between the National Health Service, education, and other local authority services. Net of savings on unemployment benefit that would otherwise have to be paid, the cost of the scheme would be £15 million. There would be a small effect on the balance of payments amounting to £4 million for imported materials. It was estimated that the scheme would provide about 6,000 jobs and reduce the number on the unemployment register by about 4,000. Since his paper had been circulated, there had been discussions between the Government and the Consultative Council on Local Government Finance at which attention had been drawn to the fact that the total expenditure by local authorities in the current year was likely to exceed by £200 million the amount that had been allocated to them in his Budget the previous April. In these circumstances it might be undesirable to press local authorities to increase their expenditure on education or personal social services but rather to concentrate on improvements to local authority housing.

In discussion it was argued that distributed expenditure of the kind proposed would have little political impact. It would make more sense to concentrate the £30 million on one item, housing for example. Against this, it was argued that any attempt to withhold the £4 million to be allocated under the scheme to local authority expenditure on personal social services would arouse bitter
resentment. The local authorities were now finding out what would be the effect on the personal social services of the 6 per cent cut amounting to £39 million which had been imposed by the Government on their spending. This would result in the closure of large numbers of places in homes for the elderly and in children's homes, and a significant reduction in the services that were being provided under the Chronically Sick and Disabled Persons Act. As for the education service, it was pointed out that the local authority budget was more likely to be underspent than overspent. It was further argued that the allocation of £2½ million to Wales should be increased. Unemployment in the construction industry in Wales was higher than in any other part of the country, while the total sum now to be made available had been calculated on the basis of average unemployment in the construction industry over the whole country. Local authority services in Wales had recently been subjected to much more stringent limitations than those in the rest of the country, and there was therefore a strong case for giving Wales a larger share of this money.

In further discussion it was pointed out that if the Government's measures were to have any significant effect on unemployment, very much more money would have to be spent, though short of a general reflation of the economy. The unemployment figures were rising steadily, and the Government would soon come under strong pressure from their supporters in Parliament and throughout the country. The sum now being allocated to help unemployment in the construction industry was inadequate when the total number of jobs that would be created were set against the unemployment figures. Nevertheless, the scheme now put forward followed closely the lines which had been laid down by the Cabinet at their meeting on 22 September. Within the limitations that had to be imposed, Departments had reached conclusions between themselves and the Treasury as to how the money should be spent. It was recognised that much more money could be spent to create jobs, but these proposals, taken with the other measures which had been agreed on 22 September, should go some way to meeting the objectives the Cabinet had in mind when they last discussed the matter.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet would have a more general discussion of the unemployment situation in the near future. The present paper was concerned only with a specific proposal for alleviating unemployment that had been discussed by the Cabinet when they previously considered this question on 22 September. It had evidently not been easy to reach agreement about the way in which the total sum of money should be spent when there were so many pressing claims to be met, but the Cabinet agreed that the proposals in the paper by the Chancellor of the Exchequer represented a fair compromise between competing interests. The Cabinet accordingly approved the Chancellor of the Exchequer's proposals which should be announced as soon as possible.
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 announce his proposals as soon as possible.

Cabinet Office

23 October 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 30 OCTOBER 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 Barbara Castle MP
Secretary of State for Social Services

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

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

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

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

The Rt Hon Eric Varley 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 Fred Mulley MP
Secretary of State for Education and Science
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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 was noted that there would on 5 November be a debate on a Motion relating to the Road Vehicles Lighting (Amendment) (No. 2) Regulations. A Prayer to annul the Regulations had been signed by a large number of Government backbench supporters; and the Opposition had now put down a separate Motion calling for their withdrawal. The Government’s defeat was inevitable. For technical reasons it was not possible for the Regulations to be withdrawn, and it was therefore proposed to take first the Prayer for annulment and to announce that a free vote would be allowed. The Prayer would be carried, and the need for debate on the Opposition’s Motion would thus be avoided.

It was reported that, contrary to reports which had appeared in the Press, the Opposition had not placed a ban on pairing arrangements, though they were taking a more restrictive line than previously.

CONFIDENTIALITY OF MINISTERIAL DISCUSSIONS

2. THE PRIME MINISTER drew the Cabinet’s attention to the unauthorised leakage to the Press of extensive (and largely misleading) information about the outcome of the meeting of the Ministerial Steering Committee on Devolution (DS) which had taken place on 24 October. The leaks, which appeared to have been calculated, suggested - wrongly - that the meeting of DS had revealed major differences of opinion between Ministers; and they had done great harm to the Government’s standing in Scotland and Wales by suggesting that Ministers had not been acting in good faith in their earlier statements about their proposals for devolution. They had also placed him in a very difficult position when answering Parliamentary Questions shortly afterwards, and he had had no choice in the circumstances but to answer a Parliamentary Question about the introduction of legislation in more robust terms than he might otherwise have done. "Government by leak" was totally unacceptable; and all Ministers should in future adhere strictly to the guidance which was clearly set out in the memorandum "Questions of Procedure for Ministers" (C(P)(74) 6).

The Cabinet -

Took note with approval of the Prime Minister’s statement.
3. THE FOREIGN AND COMMONWEALTH SECRETARY said that talks had been held in London on 23-24 October with an Icelandic delegation led by the Minister of Foreign Affairs, Mr Agustsson. It had become clear that the Icelanders had made little progress in solving the negotiating problems they faced as a result of differences of opinion within their coalition Government. In response to our opening bid for a catch limit of 130,000 tons a year the Icelanders had offered only 50,000 tons, but had asked us not to reveal that figure: his interpretation of this was that the Icelandic Foreign Minister wanted to be able to make an increase on this offer but knew that he would be bound by the figure if it became public. The next step was for the scientists of both sides to discuss data on the fish stocks in the waters around Iceland. These discussions would bring us dangerously close to the date of 13 November when our current agreement with Iceland was due to expire and Ministerial talks would probably not resume until after that date. Our rights following expiry of the agreement were clear and had been confirmed by the International Court of Justice. Nevertheless the British fishing industry was willing to exercise its rights with moderation, and we had told the Icelanders that we would act after 13 November as though the agreement was still in force. The Icelanders would have to take the public position that they stood on the 200 mile rights they claimed, but the present Icelandic Government were more reasonable than the Administration in force at the time of the last cod war and he thought it possible that they might limit their action against our fishermen to some symbolic gesture such as the cutting of one or two warps. The question of protection of our fishing vessels would then arise. It was tempting to provide Royal Navy protection immediately, but this would make it more difficult for the Icelanders to negotiate with us; there was therefore something to be said for using civilian vessels in a protection role.

In a brief discussion the suggestion was made that civilian vessels might be used for protection within the 50 mile zone with Royal Navy vessels patrolling outside the 50 mile zone. The British fishing industry was in very poor shape at present and any reduction in the catch from waters off Iceland would exacerbate its difficulties. One consequence would be great pressure from the industry on the Government in connection with the negotiations for a Common Fisheries Policy.
THE FOREIGN AND COMMONWEALTH SECRETARY said that, although nothing could be said publicly at this stage, he was engaged in very active exchanges with the Greek and Turkish Governments on the Cyprus issue. He had proposed to both sides a package containing three elements: a bi-zonal federation; boundary adjustments; and a central government with weak powers. The Greek Government were ready to accept in principle, subject to clarification of details, particularly on the boundaries. The Turkish Government response was less satisfactory: they were being deliberately vague about boundary adjustments and were demanding that in the central government the Turkish community should have equal rights with the Greek community. He was continuing his mediation with the object of reaching a sufficient measure of understanding to allow the Clerides/Denktash talks to be resumed with good prospects of success. He could not exclude the possibility that the Turks were playing a double game with us in these negotiations since in parallel discussions with the Federal German Government they had suggested not a bi-zonal federation but three zones, the central zone to be jointly administered. He was keeping in close touch with the Federal German Foreign Minister, Herr Genscher. The American Secretary of State, Dr Kissinger, was also pressing both sides to move to a solution. So were the European Economic Community countries acting as a whole, but the Turks seemed disinclined to pay much attention to the representations of the Community Presidency.

THE FOREIGN AND COMMONWEALTH SECRETARY said that there were three factors involved in the very disturbing situation in the Lebanon: the Muslims were demanding greater powers on the ground that they now outnumbered the Christians; the Lebanese Government could not use the Army to restore order; and the Palestinian refugees were an unsettling influence. Syrian policy on the issue was by no means clear: at times they appeared to be trying to mediate, though with little success, whilst at other times there was evidence that they were infiltrating Syrians into the conflict disguised as Palestinian refugees. There was a danger that Syrian intervention might induce the Israelis to move into southern Lebanon. He had been considering the possibility of mediation and had discussed this recently with the Saudi Arabian Foreign Minister, Prince Saud, who had told him that the Saudis had been unsuccessful in their own attempts at mediation and that he thought it unlikely that British mediation could succeed. He proposed to discuss the possibility with his European Economic Community colleagues in Rome but thought that the prospects of successful mediation were slim. The United States Government...
were not attempting mediation for the time being. He thought it was just possible that the Lebanese Christians might finally agree to partition the country, but it would be tragic to see the Lebanon break up in that way.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
4. The Cabinet resumed their consideration of the proposed increases in National Health Service (NHS) dental and optical charges. They had before them a memorandum by the Lord Privy Seal (C(75) 105) about the possibility of making the necessary savings by economies in the cost of administration of the NHS and related services.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that a decision on the proposed increases was urgently needed; the longer it was delayed the greater the increase in charges that would be necessary. She found the prospect of the increases most unwelcome. They were bound to cause distress and annoyance to Government supporters, all the more so because there was no prospect that any move could be made towards achieving the Government’s long-term objective of abolishing or at least reducing prescription charges. But the Lord Privy Seal had concluded that it would be impossible to make savings of £18 million a year by means of administrative economies; and she and the other Health Ministers could not find that sum from within their health programmes, which had already been cut so severely that it was doubtful whether even inescapable commitments could be met. Unless the necessary money could be found from elsewhere she therefore saw no choice but to increase charges in the way proposed, despite the damaging political effects.

In discussion, it was argued that serious political harm was bound to be caused by any increase in NHS charges, which for many Government supporters were an area of unique sensitivity. The Government’s overriding priority must be to maintain the effectiveness of their incomes policy; opposition to the £6 limit would be at its maximum in the spring of 1976, by which time the further price increases which were unavoidable would be making themselves felt. It was therefore essential to retain the confidence of the Government’s supporters generally and of the trade unions in particular; and from that point of view an increase now in NHS charges, which could do nothing but harm to the prospects of maintaining a successful incomes policy, would be an act of political recklessness. In these circumstances the lesser evil would be to provide the necessary money by increased public sector borrowing, bearing in mind that the amount involved would be too small to undermine confidence. It was also argued that the proposed increase in charges would in effect represent a further deflation of the economy by £18 million at a time when, in view of increasing unemployment, what was needed was probably a controlled reflation. And if it were unacceptable to increase public sector borrowing, the necessary money might be raised by seeking some new form of taxation which would make possible a net increase in tax revenue,
On the other hand, it was argued that there would be great difficulty in borrowing on the scale needed to bridge the already wide gap between public expenditure and revenue, and that further increases in the borrowing requirement must be avoided. Moreover, even if some reflation were judged necessary the right course would not be to increase public expenditure but to raise the tax threshold and thus reduce the burden of direct taxation falling upon those earning lower incomes, which on present trends was liable to increase to a degree which would be judged intolerable by many of the Government's supporters, including the trade unions. And even if there were scope for increased expenditure, there were strong arguments for the view that the highest priority should not be given to preventing an increase in NHS charges, which would in fact do no more than keep pace with general inflation. It would be quite unacceptable to reopen the basis of what the Cabinet had already agreed in relation to public expenditure in 1976-77, bearing in mind that many Ministers had in consequence had to take and announce difficult and unpopular decisions, sometimes involving unwelcome reallocations within their departmental budgets. In any event, it was doubtful whether NHS charges now aroused the strong emotions which they once had. Many Government supporters would accept the increases as reasonable and necessary - indeed, they might help to secure wider recognition of the seriousness of the economic situation.

THE PRIME MINISTER, summing up the discussion, said that, while fully recognising the political dangers involved, a clear majority of the Cabinet agreed that there was in present circumstances no effective alternative to proceeding forthwith with the increases in NHS charges proposed by the Secretary of State for Social Services. Even if an additional £18 million could by some means be made available, top priority would not necessarily be given to devoting it to the avoidance of increases in NHS charges. The Cabinet's decision would have to be presented with the greatest care, and the carefully chosen concessions which the Secretary of State had proposed would be valuable in this context. It would also be desirable that, in announcing the increases, she should both emphasise the increase which had taken place in the real cost of the NHS, and set the present increase in charges firmly against the background of the degree of general inflation which had taken place since the last increase. It might also be helpful for any announcement in Parliament to be timed so that the Secretary of State would have an opportunity on the same day of explaining the decision to the Parliamentary Labour Party.
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, in consultation with the Secretaries of State for Scotland and for Wales, to proceed accordingly.
5. The Cabinet had before them a note by the Lord President of the Council (C(75) 110) to which were attached revised drafts of The Queen's Speeches on the Opening of the new Session and on the Prorogation of Parliament.

THE PRIME MINISTER said that on 23 October the Cabinet had approved the draft Opening Speech, subject to a number of amendments and additions, and the draft Prorogation Speech subject to one addition. These changes were incorporated in the revised drafts now before the Cabinet.

The following points were made in discussion -

Paragraph 12 of the Opening Speech, in its revised version, referred to "the present quite intolerable level of unemployment". This phrase might subsequently be used against the Government, and "quite intolerable" should be replaced by "unacceptable".

Paragraph 20 of the Opening Speech said that the Government would bring forward "detailed proposals" for the establishment of Scottish and Welsh Assemblies. But as a result of the damaging leak which had followed the meeting of the Steering Committee on Devolution (DS) at Chequers on 24 October, the Prime Minister had been obliged to give an assurance, when replying to Questions in the House on 28 October, that legislation would be introduced as early as possible in the next Session. In view of this it would be necessary for the Speech to refer to legislation rather than to "detailed proposals" which could imply no more than a White Paper. This was however complicated by the fact that Ministers had accepted, and might have to indicate during the debate on the Address, that it would not be possible for the Bill to reach the Statute Book by the end of the Session. In any case it was desirable to allow ample time for public opinion to form and to be taken account of. In these circumstances it was necessary to avoid a form of words in The Queen's Speech which seemed to suggest that the Government were committed to no more than the publication of a White Paper early in the Session and at the same time avoid a commitment to legislate by the end of the Session.

Paragraph 24 of the Opening Speech should say that legislation would be introduced "for a development land tax" so as to avoid the use of the word "impose".
Paragraph 11 of the Prorogation Speech should refer to the "devotion" rather than the "integrity" of the Armed Forces and the Royal Ulster Constabulary.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the drafts of the two Queen's Speeches, subject to the further amendments which had been agreed. He would now submit the drafts to The Queen. Paragraph 20 of the Opening Speech would say that the Government would bring forward "legislative proposals" for the establishment of Scottish and Welsh Assemblies. The timetable would then be that the White Paper would be published in November or December. The draft Devolution Bill would be published when ready - probably in March or April of 1976 - and a Parliamentary debate on the substance of the Bill - not necessarily a formal Second Reading debate, though this was not excluded - might be arranged in the summer. Comments on the Bill and on the White Paper would then be taken into account in the drafting of the new Bill which would be introduced in the 1976-77 Session. The Government might be criticised on both the timing and content of their devolution plans. There were of course some very real difficulties; but it was essential that the whole Cabinet should present a united front in support of the policies which were approved and of colleagues with responsibility for devolution matters.

The Cabinet -

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

Cabinet Office

30 October 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 6 NOVEMBER 1975 at 10.15 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 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 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 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 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 P Benner (Item 1)
Mr J A Hamilton (Item 4)
Mr T F Brenchley (Items 1-3)
Mr J A Marshall (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 intended that Parliament should be prorogued on Wednesday 12 November but this might have to be reviewed in the light of the progress made with current business.

The Cabinet then considered the handling of the current differences between the House of Commons and the House of Lords over the provisions relating to the Press in the Trade Union and Labour Relations (Amendment) Bill.

THE SECRETARY OF STATE FOR EMPLOYMENT said that in principle three courses were open. The first was to see whether there was any remaining scope for compromise. In his view there was not. He had agreed as a final concession to provide in the Bill for a supervisory body to oversee the operation of the voluntary code of practice; but this had not sufficed to commend the Government's proposals to the House of Lords. Any further concession would be likely to involve the enforcement of the code of practice by the courts, and this would be unacceptable; it would involve the abandonment by the Government of a major point of principle; it would imperil the unanimous support which the Government had, after long discussions, secured from backbench Labour Party Members in the House of Commons; and it would much reduce the likelihood of agreement on a voluntary code of practice being reached by the parties concerned. There was in any event no scope for compromise on Lord Hailsham's amendments providing for compensation to be assessed and enforced by the courts. The second course would be to accept the amendments by the House of Lords for the sake of enabling the remaining provisions of the Bill to reach the Statute Book forthwith. An amending Bill on the Press would then be introduced in the next Session.

He did not recommend action on these lines, which would strengthen the position of the more extreme members of the National Union of Journalists and correspondingly weaken the prospect of agreement being secured on the terms of the Charter. Moreover, it would be highly undesirable for the Government to accept defeat by the Lords on an issue of this importance. The third course was to invoke the provisions of the Parliament Act. The result might be that the Bill would not become law until late in the next Session. Clearly it would be unwelcome to defer for so long the final repeal of the Industrial Relations Act; but the view of the Trades Union Congress, which he shared, was that this course was the least unwelcome of the three which were open.
THE LORD PRIVY SEAL said that there were serious dangers in invoking the Parliament Act, which had not been used since 1949. The prospects that the Opposition in the Lords would give the Government reasonable co-operation in dealing with the legislative programme during the next Session would be reduced, and the position might be reached where the Parliament Act would have to be used fairly frequently, with all that this would imply in terms of friction and delay. There was therefore much to be said for exploring the possibility of some further compromise. Bearing in mind that the Government had given a public assurance that they would be prepared to legislate urgently if the freedom of the Press appeared to be in danger, this might take the form of a provision empowering the Secretary of State, acting on advice from the Supervisory Board, to make an Order rendering the provisions of the code of practice enforceable in the courts. It would be necessary to take soundings to see whether such an amendment was likely to be acceptable to the Opposition in the Lords: one difficulty here was that Lord Hailsham and Lord Goodman were not in agreement about their respective amendments.

In discussion, it was argued that Government supporters in the Commons would not understand the abandonment of the Press provisions advocated by the Government in deference to opposition in the Lords. Moreover, an amending Bill would no doubt run into the same difficulties as the present Bill: the Parliament Act would probably need to be invoked in the end and thus the Bill might not become law for another two years. In any event, the prospects of such a Bill in the Commons must be uncertain, given that the Government might well soon lose their overall majority and that it was doubtful whether on this issue they would receive any support from the minority Parties. Regarding the advisability of using the provisions of the Parliament Act, it was argued that it would first be desirable to be quite clear that there was no scope for further compromise. Lord Hailsham's amendments were clearly unacceptable, but the position was less clear in relation to Lord Goodman's. His amendment declaring that there was to be no limitation on existing rights under common law seemed acceptable in principle, even if strictly unnecessary. And the provision that breaches of the code of practice should be regarded as contrary to public policy seemed harmless, given that it should not result in any widening of the existing causes of action and that the Government's own proposals envisaged that, although a breach of the code of practice would not give grounds for legal action, it could be used evidentially in any court proceedings arising on some other ground. Lord Goodman's amendment might tend slightly to strengthen the case presented by a plaintiff; but this did not of itself seem to be an insuperable objection to it. It was, however, argued that some widening of the scope for legal action would
probably be inevitable. Lord Goodman's amendment was most obscure - this was itself a ground for criticism; but the danger was that, since much of the code of practice would be couched in very general terms, the field within which something might be done which was arguably contrary to public policy, and consequently a subject for adjudication by the courts, would be very wide. Indeed Lord Goodman's avowed intention was to make the code legally enforceable and therefore to widen the scope for intervention by the courts.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the House of Commons should be urged that afternoon to agree to a message to the Lords in terms which would effectively restore the Bill to the form in which it had last left the Commons. The amendments which had been moved by Lord Hailsham, providing for recovery of compensation through the courts, were clearly unacceptable and afforded no scope for compromise. It would however be desirable, before the message from the Commons was considered by the Lords, to explore urgently the possibility of making further changes in the Bill which would go some distance towards meeting the objectives of the amendments moved by Lord Goodman and would be acceptable both to him and to the Government. It had been suggested, for example, that it might be possible to accept his amendment that all existing common law rights would be preserved, to which there seemed no objection on policy grounds. It might also be possible - though the difficulties were clearly considerable - to go some way towards meeting Lord Goodman's proposal that breaches of the code of practice should be declared to be contrary to public policy. In the course of the Cabinet's discussion, it had been strongly argued that such a provision would widen the present scope for legal proceedings, but it had also been suggested that it might merely have the effect of strengthening the basis for legal actions without increasing the scope for such actions to be brought. These were matters of importance calling for further study. The Lord Chancellor, in consultation with the Secretary of State for Employment and the Lord Privy Seal, should therefore examine urgently the possibility of including in the Bill provisions acceptable to Lord Goodman which, while making the latter's point about public policy, would not involve any widening of the causes of action which already existed - ie would not give anyone a right of recourse to the courts which he did not now have. For this purpose the Ministers concerned were authorised to enter as necessary into informal consultations with Lord Goodman. If agreement could not be reached, or if it proved impossible to secure the deletion of Lord Hailsham's amendments, the Cabinet agreed that the provisions of the Parliament Act should be invoked; and in that event The Queen's Speech on the Opening of the next Session should include an undertaking to reintroduce the Trade Union and Labour Relations (Amendment) Bill in that Session.
The Cabinet -

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

2. Invited the Lord Chancellor, in consultation with the Secretary of State for Employment and the Lord Privy Seal, to proceed as indicated in the summing up.

The Cabinet were informed that the House of Lords had accepted amendments, which had been moved by the Bishop of London, making substantial extensions to the concessions which had been provided for the churches and charities. The original concessions, which had been discussed in detail by the Home Affairs Committee, were generous and on merits there seemed no case for going further.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet noted that if the Commons disagreed with these amendments it was unlikely that they would be pressed further by the Opposition in the Lords. They agreed that it would be right to adhere to the concessions which had originally been included in the Bill, following discussion by the Home Affairs Committee, except that, in respect of land acquired by a charity after the date of issue of the White Paper, the period for it to qualify for the prevailing use basis of compensation should be seven years, rather than the ten years originally proposed by the Government or the one year sought by the Bishop of London.

The Cabinet -

3. Took note, with approval, of the Prime Minister's summing up of their discussion.
2. THE SECRETARY OF STATE FOR NORTHERN IRELAND said that the Convention would report on 7 November and would be dissolved at midnight on that date. However, dissolution in Northern Ireland terminology was equivalent to prorogation at Westminster and it was his intention to continue to pay Convention members for another three months during which they would be able to continue talking. This would provide a further opportunity for discussion among the members. At one stage there had seemed to be growing support for the concept of a voluntary emergency coalition suggested by Mr Craig, but this had been rejected as a result of Mr Paisley's opposition, and the Convention's report would be signed by the United Ulster Unionist Coalition members only. The Official Unionist Party was however now split and it remained to be seen whether support for Mr Craig's proposal would grow. His intention was to make a low-key statement to the House of Commons on 10 November, saying only that the Convention's report had reached him and that he would be engaged in consultations to see whether it was acceptable to the community as a whole, as by law it must be. He would avoid any suggestion of a crisis and he would keep the political dialogue in Belfast going. This initial reaction would not create problems with the Government of the Republic.

Although the ceasefire had only been partially effective it had nevertheless changed the security situation to our advantage. The Provisional Irish Republican Army were having trouble in controlling their members and this was damaging their standing. Their position had been further weakened by the counter-attraction to extremists of the Irish Republican Socialist Party. The Royal Ulster Constabulary had been doing very well recently and were increasingly able to operate in the Catholic community areas. Their morale was high and he did not think that they would ever revert to the former attitude and practices. He was avoiding any interference in their activities so as to emphasise their independent status. The Irish Government, although they would not want it to be said in public, were co-operating effectively in security measures. He had announced that no new prisoners would be given Special Category treatment in the Northern Ireland prisons after March 1976. It was also his intention, as he had announced, to release the last 140 detainees by Christmas. The ending of detention was bringing about a radical change in the attitude of the Catholic community and he was convinced that the Catholic community would as a result refuse to support renewed violence by the Irish Republican Army.

The Cabinet -

Took note of the statement by the Secretary of State for Northern Ireland.
3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation over Belize was disturbing. Following increasing support in the United Nations for Belizean independence there had been Guatemalan troop movements to the border area and there was now a serious risk of a Guatemalan invasion without further warning. He had therefore accepted the Governor's recommendation that the garrison should be reinforced. We were not seeking any confrontation with Guatemala but we could not allow Belize to be overrun, especially given the support for Belizean independence expressed at the Commonwealth Conference and at the Conference of Non-Aligned States. He had been in touch with the United States Secretary of State, Dr Kissinger, but the latter had not been very hopeful that the danger of invasion could be removed. It was of course possible that our reinforcements would deter the Guatemalans but if not our forces would have to take the minimum action necessary to repel an invasion.

The Cabinet -

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

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

Cabinet Office

6 November 1975
CABINET

CONFIDENTIAL ANNEX

CC(75) 46th Conclusions Minute 4

Thursday 6 November 1975 at 10:15 am

ECONOMIC SITUATION

The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 114), a memorandum by the Secretary of State for Energy (C(75) 113), a memorandum by the Chancellor of the Exchequer and the Secretary of State for Trade (C(75) 115) and a memorandum by the Chancellor of the Duchy of Lancaster (C(75) 111).

THE CHANCELLOR OF THE EXCHEQUER said that his paper summarised the main features of the latest short-term economic forecast. In their discussion Ministers should keep in mind that such forecasts were subject to a great deal of uncertainty, particularly in present circumstances; nevertheless the picture was a disturbing one. The gross domestic product was expected to rise slowly from now on, but growth would not become rapid until 1977. There was a considerable lag between changes in output and changes in employment, and as a consequence unemployment was expected to rise to a peak of some 1.4 million by the end of 1976. The balance of payments deficit in 1976 was expected to be no better than in the current year due partly to rising imports as activity began to improve and partly to some adverse movement of the terms of trade; the invisible surplus would also be reduced by the burden of interest on accrued debt. In 1977 the external position was forecast to deteriorate although it was especially difficult to forecast the balance of payments that far ahead. The public sector borrowing requirement (PSBR) in 1975–76 was now thought likely to be some £12,000 million (compared with the £9,000 million forecast at the time of the Budget). In 1976–77 it would be far from easy to keep it down even to £12,000 million, with the forecast unemployment rate. While savings were high and private investment low, there was no great problem about financing this level of PSBR, but it would be essential to reduce it after 1976 as other demands upon resources rose with the recovery of the economy. It was not possible to cut the PSBR in 1976–77 without increasing unemployment. Rather the problem...
was to find means of reducing unemployment which would not increase the PSBR and damage overseas confidence. To reflate demand by tax cuts or by increases in transfer payments would place a burden on both the PSBR and the balance of payments and would also be very slow to have an effect upon unemployment - a reflation of £1,000 million by these means would only reduce unemployment by 30-50,000 in the ensuing twelve months. It would be better to look for micro-economic measures which were more effective and quicker-acting. The package of £75 million announced in September would have as much effect on unemployment in 3-4 months as an increase in demand of £1,000 million would have in 12 months. He had suggested a range of micro-economic steps in his paper: selective investment incentives (a £20 million extension was being announced that day); selective import controls introduced under Article XIX of the General Agreement on Tariffs and Trade (GATT), designed to save viable firms from collapse during the recession; some relaxation of hire purchase controls; the identification and removal or reduction of capacity bottlenecks which would otherwise frustrate Britain from taking advantage of the upswing in world trade when it came; and the identification of domestic and foreign obstacles to export expansion, on which the Secretary of State for Trade would be putting papers forward to the National Economic Development Council. These were all areas in which early study and action were desirable. The question of a conventional demand reflation should be considered at a later stage, when it could be seen that the pay policy was working effectively. While he was not persuaded that a general control over imports was either necessary or wise, since it would provoke retaliation and reduce the level of world trade, he would not wish to exclude it as a possibility at some later date. However, he was doubtful whether British industry could successfully be regenerated behind a protective wall; neither side of industry was pressing for it; and he did not regard it as a practical option at present.

Turning to the question of financing the overseas deficit, he shared the view expressed in the paper by the Chancellor of the Duchy of Lancaster that as far as possible the deficit should be financed by borrowing in non-sterling. He calculated that over the next six months there was a prospective financing gap of some £600 million. Our creditworthiness had not recovered sufficiently to justify the risks involved in trying to borrow on the commercial markets. He had therefore concluded that it would be right at this juncture to apply for two unconditional borrowings from the International Monetary Fund (IMF). The first of these, for 700 Special Drawing Rights (SDR) would represent our first credit tranche in the Fund. The second would be a borrowing from the oil facility set up by the Fund, and would be for 1,000 SDR. The
total sterling value of these two borrowings would be £975 million. Unless we indicated to the IMF in the course of the next week that we wished to make this borrowing from the oil facility, it would cease to be available. The interest rate on the first credit tranche was 4-6 per cent, and that on the oil facility (which would be for five years) was 7½ per cent, compared with something like 9 per cent which would need to be paid on a commercial borrowing if it could be obtained. The managing director of the IMF, Dr Witteveen, had confirmed that he would support our application on the basis of no change being required in our present economic policies. The borrowing from the oil facility would be subject to an undertaking not to interfere with monetary and other transactions without prior consultation with the Fund, and in this connection he had warned Dr Witteveen that we might wish to impose some selective import controls. The latter had said that, if so, there was much to be said for taking this action before the drawing was approved. But failing this he had agreed with Dr Witteveen that we would need to give the Fund two or three days' notice before the announcement of any selective import controls. He had not discussed with him the possibility of general import controls which there was in any case no intention of introducing at present. But provided a delay of three to four months were allowed between the drawing from the Fund and an announcement of general import controls, the additional problem created by the terms of the IMF drawing would be miniscule compared with the other difficulties which such action would generate. He intended, if Cabinet approved this proposal, to announce the following day the intention to make a formal application to the Fund. It would not foreclose any options for the future and it made sense, and could strengthen confidence, to take this money while it was available.

THE SECRETARY OF STATE FOR TRADE said that he had tried to make it clear to the public and to Britain's trading partners that while the Government favoured a high level of international trade they were not prepared to allow major British industries to be wiped out by import penetration. He had kept open the possible option of using selective import controls to this end. The paper which he and the Chancellor of the Exchequer had circulated set out the case for selective import controls and the difficulties entailed. It was true that we had the right to apply such controls under Article XIX of GATT, but one of the provisions of that Article was that those who suffered thereby could claim compensation, and it would be necessary to weigh the balance of advantage in individual cases; work on this should now go ahead. He did not minimise the importance of using anti-dumping powers to the full, but dumping was not the main problem. The main problem was the strength and efficiency of Britain's competitors. He agreed with the Chancellor of the Exchequer's general approach but if there
was to be any question of applying general import controls, a decision would be needed well before May 1976 when the Organisation for Economic Co-operation and Development (OECD) trade pledge was due for renewal.

THE SECRETARY OF STATE FOR ENERGY said that the Cabinet faced a major turning point in the Government's economic strategy. The situation was graver than even the Chancellor's paper suggested, and in his view the policies proposed were bound to fail. What was more the present pay policy had been sold to the trades unions as the only alternative to increased unemployment and massive public expenditure cuts, and also on the basis that there would be stable prices. Now unemployment was rising, it was proposed to cut public expenditure heavily, and the present policy on prices would allow £1,000 million to go into the company sector. If this continued, the pay policy would also fail. There was no national consensus for the present economic strategy, which was deflationary. The industrial strategy which had been presented the preceding day to the National Economic Development Council was no more than a generalised discussion plan. The need for recovery in industry was to be used as an excuse for public expenditure cuts, but it was far from clear that cutting expenditure and putting such people as nurses out of work would add to the country's productive capacity. It would be wrong to ignore the fact that the Trades Union Congress (TUC) was deeply uneasy about the present situation. He had put forward two options in his paper, the first of these - to devalue, hold wages and boost profits - would breach the conditions on which the pay policy was based and gave no guarantee of achieving the higher investment which was needed. The second - to rebuild the country's industries behind a wall of protection - was a policy he had urged for the last 18 months. He believed that senile industries, like infant industries, needed a wall behind which the necessary restructuring could take place. The Government needed a target rate for reducing unemployment, and while he accepted that there should be no general reflation at the present time, it was desirable to undertake more effective micro-economic measures, at the same time controlling overseas investment and protecting the social services. There would be agreement in the country to a national recovery plan on those lines. He was glad to note that the possibility of general import controls was not ruled out. In his view the Government needed an even closer link than it had now with the trades union movement in policy formulation.

In discussion it was argued that, even allowing for uncertainties in the unemployment forecast there could still be one million unemployed by the end of 1977, and this would be intolerable. Neither the Government, nor the Government's agreement with the
trades unions, would survive such a situation. In the immediate future, the most vulnerable point would come around May or June 1976, when the gap between the movement of prices and the movement of pay would be at its greatest, while unemployment would still be increasing. It was therefore crucial to decide what could be done during the next few months. The Chancellor of the Exchequer's micro-economic proposals should certainly be explored, but there was need for other micro-economic measures of a more ambitious character. Fresh training proposals, a lower limit for temporary employment subsidy, an enlarged work creation programme, and more expenditure on community industry all deserved further consideration. The possibility of selective import controls should be considered swiftly so that some could be brought into operation at an early date. What was needed was a package of minor measures aimed at curbing the increase in unemployment. Among these might be some addition to the £30 million recently announced to provide employment in the construction industries, and such an addition might be concentrated on housing construction in those areas where male unemployment was at its highest.

On demand reflation, it was argued that it was neither necessary nor desirable to do nothing until next spring. The Chancellor of the Exchequer had confirmed that there were no conditions attaching to the proposed IMF loan which would prevent the Government from reflationing when it saw fit. Although reflation would not reduce unemployment until after a lag of some months, it would change the Government's relations with the trades union movement in a way which would enable the Government to survive politically and to implement the plan for the regeneration of British industry. Work should begin at once to study a reflationary package designed to bring the maximum advantage to Government policies. In this connection support was expressed for the idea of a gradual reflation, starting fairly soon, but linked to incomes policy by a rolling deal with the trades unions. Thus as the £6 a week limit was seen to be sticking there could be some reflation to ease unemployment and as progress was made on the re-entry problem there could be further reflationary measures. This would however need very careful presentation and there should be no public canvassing of what might be deemed to be a permanent incomes policy.

In the course of further discussion the following main points were made:

a. Of the additional £3,000 million added to the forecast PSBR for 1975-76, 15 per cent was directly attributable to the recession in terms of extra unemployment benefit and loss of tax revenue, but this would rise to 40 per cent if other
items, such as the assistance to British Leyland and the financing of Coal Board stocks, which could also be attributed to the recession, were added in. It was noted that not all action to reduce unemployment would simultaneously reduce the PSBR.

b. While work should be done on selective import controls, what was really needed was improved economic performance. British industry was being beaten by its competitors. Thus, productivity in British shipbuilding had improved by 1 per cent since 1968, whereas in foreign shipyards it had improved by 30 per cent. It had to be recognised that Planning Agreements were so far no more than a slogan; and it would be of great importance to ensure that the National Enterprise Board was not allowed to become a repository of lame ducks. The underlying need was to build up an efficient base for British industry through appropriate micro-economic policies.

c. In considering or applying selective import controls account should be taken of the position of developing countries. It would also be important not to slide gradually into the application of general import controls. This would be a very major decision raising quite different issues.

d. The relaxation of hire purchase controls was worth consideration, but such a relaxation at the present time might have the wrong psychological effect, leading the public to think that there was less need for the restraint implied by the present pay policy.

e. The Buy British campaign, which had been mooted at an earlier stage, should be pushed ahead vigorously as part of the campaign to protect British industry.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Chancellor of the Exchequer should the following day announce his intention to apply for two borrowings totalling £975 million from the IMF. This was on the understanding that it required no change in our existing policies and foreclosed no options which we might wish to take in the future. There was also wide approval for the general approach embodied in the Chancellor of the Exchequer's paper on the economic situation and it was agreed that this approach should govern the Government's attitude until early in the New Year when the Cabinet would again consider the issues of reflation and the balance of payments. There was also agreement that the micro-economic measures suggested by the Chancellor of the Exchequer, relating to the relaxation of hire purchase controls, the identification and elimination of capacity bottlenecks and the reduction or elimination of export constraints should all be pursued;
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but other proposals for micro-economic measures which had been put forward during the discussion should also be urgently studied. The doubts which had been expressed about the wisdom of a relaxation in hire purchase controls should be considered carefully. On selective import controls there was general agreement that these should be studied further as a matter of urgency and proposals brought forward on a case by case basis.

The Cabinet -

1. Endorsed the general approach in the Chancellor of the Exchequer's paper (C(75)114), and agreed that they would again consider the issues of reflation and the balance of payments early in 1976.

2. Agreed that the Chancellor of the Exchequer should the following day announce the Government's intention to apply for two loans totalling £975 million from the International Monetary Fund.

3. Endorsed the proposals in the paper by the Chancellor of the Exchequer and the Secretary of State for Trade (C(75)115), on import controls.

4. Invited the Chancellor of the Exchequer and the Secretary of State for Trade, as a matter of urgency, to bring before the Ministerial Committee on Economic Strategy proposals for selective controls on imports in particular sectors on a case by case basis.

5. Invited the Chancellor of the Exchequer, in consultation with the Secretaries of State for Industry and Employment, to identify and recommend to the Ministerial Committee on Economic Strategy action needed to eliminate capacity bottlenecks, whether of manpower or of capital equipment.

6. Invited the Chancellor of the Exchequer, in consultation with the Secretaries of State for Industry and Trade, to undertake a systematic interdepartmental programme to reduce export constraints and to report to the Ministerial Committee on Economic Strategy.

Cabinet Office

7 November 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on TUESDAY 11 NOVEMBER 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 (Items 2-4)

The Rt Hon Eric Varley MP Secretary of State for Industry

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

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

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

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

The Rt Hon Anthony Crosland MP Secretary of State for the Environment (Items 2-4)

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 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 (Items 1-3)
SECRETARIAT

Sir John Hunt
Mr J Garlick (Item 4)
Mr G R Denman (Item 1)
Mr J A Hamilton (Item 3)
Mr T F Brenchley (Item 1)
Mr M E Quinlan (Item 4)
Mr A D Gordon-Brown (Item 2)
Mr W R Tomkys (Item 1)
Mr C J Farrow (Item 3)

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The Foreign and Commonwealth Secretary said that the threat of an invasion of Belize seemed to have receded, at least for the time being. In Guatemala the Foreign Minister, Senor Molina, had made a speech designed to calm public opinion and had then retired to hospital. The Belizean resolution at the United Nations had attracted 55 co-sponsors and was sure to be passed with a large majority. He would then at once propose discussions with the Guatemalan Government so as to save their face. Our action in sending reinforcements had been timely: he hoped the situation would now settle down.

The Governor General, Sir John Kerr, had taken the unusual step of dismissing the Prime Minister, Mr Whitlam, because of his refusal to resign following rejection of his budget by the Senate. The constitutional position in Australia seemed to be different from that in the United Kingdom in two respects: the Senate there was a fully elected body and in Australia it was the responsibility of both Houses of Parliament to vote Supply. In place of Mr Whitlam's Administration, the Governor General had appointed a caretaker Government, whose task was to vote Supply and then call a General Election. The situation which had arisen in no way involved the United Kingdom Government. The Governor General was responsible to The Queen in her capacity as Queen of Australia.

The Resolutions on Palestine passed by the General Assembly had been bad. The United Kingdom had voted against both of them. The nine members of the European Economic Community (EEC) had not achieved unanimity of voting. In the Resolution on Palestine Liberation Organisation participation the United Kingdom, the Federal Republic of Germany and the Netherlands had been among the eight adverse votes, whereas the other six EEC members had been among the 25 countries abstaining. The Resolution on Palestinian rights had been adopted by 93 votes in favour to 18 against, with six EEC countries among those 18. The passage of these two Resolutions had raised the temperature in the General Assembly and their effect could only be harmful.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary.
2. The Cabinet considered further the differences between the House of Commons and the House of Lords over the provisions relating to the Press in the Trade Union and Labour Relations (Amendment) Bill.

THE LORD CHANCELLOR said that, following the Cabinet's discussion on 6 November, there had been informal consultation with Lord Goodman on the amendments relating to the enforcement of the Charter on the Press and to its content. On enforcement, Lord Goodman insisted on the retention of his amendment that any rule, agreement, act or conduct contrary to the provisions of the Charter should be deemed to be contrary to public policy, but would accept the omission of the words "act or conduct". This was a considerable improvement, but still left open the possibility that the amendment would create new causes for legal action. He proposed the addition to this amendment of the words "but no person shall be subject to any legal liability by virtue of this sub-section to which he would not be liable apart from this sub-section", but this had not yet been agreed by Lord Goodman. There was greater difficulty over Lord Goodman's amendment specifying the matters to be covered by the Charter. Lord Goodman would not accept that the amendment by the Manifesto Group which had twice been passed by the House of Commons was adequate; he wanted this amendment to refer to the "availability" rather than the "question" of access for contributors - which was acceptable - but he also insisted that the Charter should include provisions covering the rights of journalists not to be unreasonably excluded or expelled from trade unions and to belong to the union of their choice, and the rights of editors not to belong to a trade union. Lord Goodman wanted an undertaking to Parliament that, if the parties did not agree on a Charter which included provision for these matters, the Secretary of State for Employment would then use his powers to ensure that the Charter contained such provisions. It might be possible, though it was by no means certain, to persuade Lord Goodman to agree on the enforcement point, and the question for the Cabinet was whether or not to take a stand on the wording twice passed by the House of Commons relating to the contents of the Charter. Lord Carrington had said that, if the Government were able to reach agreement with Lord Goodman, he thought he would be able to dissuade Conservative peers from voting for Lord Hailsham's amendment which would provide compensation for persons suffering loss in consequence of breaches of the Charter.

THE SECRETARY OF STATE FOR EMPLOYMENT said that he accepted that the words which the Lord Chancellor proposed should be added to Lord Goodman's amendment on public policy would meet the Cabinet's decision of 6 November that this amendment should not give anyone a right of recourse to the courts which he did
not now have, though he thought it unlikely that Lord Goodman would accept this addition. He considered, however, that the Government should insist on the retention of the amendment on the contents of the Charter which had been devised by the Manifesto Group, and passed in the Commons by majorities of 30 and more, following months of discussion. The Commons could not now be expected to go back on these decisions at the dictation of the Lords, in order to introduce one-sided provisions proposed by Lord Goodman, all of which were directed against the National Union of Journalists and in favour of editors. The inclusion of such provisions would amount to writing into the Charter, in advance of any negotiations between the parties, the rights of one side. This would greatly reduce the prospects of an agreed Charter and might lead to industrial trouble in the Press industry. If he were to give an undertaking about the way in which he would use his own powers, this would equally amount to pre-judging the outcome of negotiations on the Charter.

THE LORD PRIVY SEAL said that the wording of Lord Goodman's amendment on the contents of the Charter was, for the most part, the same in spirit as the Manifesto group's wording. The difference concerned the rights of journalists to belong to a union of their choice and not to be unreasonably expelled or excluded, and the rights of editors not to belong to a union. He would find it very difficult in any Parliament to argue that the Charter should not deal with these matters, and the issue was how the Commons would react and how Lord Goodman's wording would affect the chances of an agreed Charter. Lord Carrington was fairly certain that he could persuade Conservative peers not to support Lord Hailsham if the Government were in agreement with Lord Goodman, and he favoured making one last effort to reach agreement with Lord Goodman on a form of words to describe the contents of the Charter. It hardly seemed justifiable to use the Parliament Act because of this one point of difference, and he feared that, if this were done on this occasion, it would become a practice in the Lords to obstruct Government legislation and leave the Government to use the Parliament Act. The Lords would by the end of the Session have passed all the other Government Bills; and the question was whether this single amendment by Lord Goodman was worth a constitutional crisis.

In discussion it was argued that the main point was to ensure that the Charter created no new rights of legal action, and that the Government should not go to the last ditch on Lord Goodman's amendment on the contents of the Charter, which merely spelt out what was implied by the Manifesto Group's amendment. The issue would presentationally be unfavourable ground for the Government to take a stand on. On the other hand it was suggested that
Lord Goodman did not want Press freedom, but a victory and a Charter for newspaper proprietors. Acceptance of his wording would undermine the Government's stance that the Charter should be voluntary, and would be represented as a major climb-down by the Government whose supporters in the Commons would jib at being asked to reverse their previous votes. Nor was this a moment to be seen to be giving in to the House of Lords.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that if Lord Goodman would accept the additional words proposed by the Lord Chancellor as well as the omission of the words "act or conduct" his amendment on public policy would be acceptable. But on balance his amendment on the contents of the Charter must be regarded as unacceptable; the Government could give no further ground on this point and should adhere to the wording of the Manifesto Group's amendment. The Lord Chancellor, in consultation with the Secretary of State for Employment and the Lord Privy Seal, should accordingly explain the Government's position to Lord Goodman before the debate in the House of Lords that afternoon, and should make one last attempt to secure his agreement. Unless Lord Goodman acquiesced and the House of Lords then passed the Bill in the form agreed between the Government and Lord Goodman and rejected Lord Hailsham's amendment, the Cabinet's decision of 6 November should stand and the Parliament Act should be invoked next Session.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Ministers concerned to proceed accordingly.

CHRYSLER (UK) LTD.

3. The Cabinet considered the position of Chrysler (UK) Ltd. Their discussion and the conclusions reached are recorded separately.
DEVOLUTION TO SCOTLAND AND WALES

The White Paper

4. The Cabinet considered a note by the Lord President of the Council (C(75) 119) covering the draft of a White Paper on devolution to Scotland and Wales.

THE LORD PRESIDENT OF THE COUNCIL said that the draft White Paper represented the working out of the commitments which the Government had undertaken, and reflected the decisions reached by the Ministerial Committee on Devolution Strategy. The Committee's wish to avoid commitment to every detail of the proposed devolution schemes was met by paragraphs 5 and 288 of the draft. The text, if approved by the Cabinet, needed to go to the printers by 14 November at the latest for publication on 27 November. Certain infelicities in the drafting would be removed in final editing, and any other suggestions for minor adjustments could be considered at the same time.

In discussion, it was said that Parts I and II of the draft did not strike the right note; elements were too defensive, and more robust material currently appearing later in the draft might usefully be brought forward.

Differing views were expressed on whether the White Paper should reiterate, or alternatively soften, the commitment in the September 1974 White Paper (Cmnd 5732) to adopt for the Assemblies the same voting system as that used to elect the House of Commons. It was hard to predict whether this system would be more likely than some system of proportional representation to lead to separatist majorities.

In discussion of whether the House of Lords should have a role in the Parliamentary approval of "override" on policy grounds, it was suggested that such a role could come into play only in circumstances where it was highly undesirable that the Lords should have power. On the other hand, it was suggested that this difficulty could be avoided, without major constitutional departure, by giving the Lords a role on the general lines envisaged in the 1968 Parliament No 2 Bill - a role, in effect, simply to compel the Commons to think again, however briefly.

Differing views were expressed also on whether or not responsibility for the probation service in Wales should be devolved in the Welsh Assembly. In favour of this, it was argued that the service was independent of the penal system, that its work bore an increasingly close relationship with the social services (which were to be devolved) and that the effective absorption of the probation service into the social work field had worked well in Scotland. On the other hand, it was pointed out that the work of the service in Wales, as in England, was bound up with that of the magistrates' courts and the
police; that devolution in Wales could generate pressures for undesirable reorganisation in England; and that it would make poor administrative sense to hive off to the Assembly a fragment numbering little over 200 people from the current England and Wales service.

On the costs of devolution, it was suggested that experience showed that staff costs always turned out to be greater than had been expected and that it was therefore undesirable to publish specific figures; on the other hand, it was argued that more careful examination might well show that the present cost estimates were too high.

A number of other detailed suggestions were made on the text of the White Paper.

THE PRIME MINISTER, summing up the discussion, said that the Lord President deserved the congratulations and thanks of the Cabinet for carrying forward to this stage the preparation of a White Paper which should undoubtedly be seen as an impressive piece of work by the Government. The Cabinet agreed that the White Paper should be published as proposed, subject to final adjustment by the Lord President, in the light of the points made in discussion and, if necessary, after reference to himself. The references in the text to the Assembly elections, to the probation service in Wales, and to costs of devolution, should be left unchanged. The Cabinet agreed that the House of Lords should have a role in 'override' procedures on the general lines of the 1968 Bill, and the Lord President should arrange for the further working out of a detailed scheme. Other outstanding questions of substance, such as future responsibility for the appointment of Her Majesty's Inspectors of Schools in Wales, should be considered further by the Lord President with other Ministers concerned.

The Cabinet -

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

Cabinet Office
11 November 1975
THE SECRETARY OF STATE FOR INDUSTRY said that at a meeting with the Prime Minister on 3 November the Chairman of the Chrysler Corporation reported that his Board had taken a firm decision to provide no further finance to support the continued operation of Chrysler (UK) Ltd after the end of November. He had gone on to say that if the Government wished Chrysler to continue operating they would have to take over all future financing requirements; these were estimated by Chrysler at £55 million for losses up to 1979 and £80 million for the development of new models, but in the view of the Department of Industry these estimates were likely to be much too low. Failing this Chrysler would start to run down their British company at the end of November, Redundancies would start immediately and closure would be completed in about three months. Chrysler (UK) Ltd employed about 25,000 workers. It had been known for some time that their position was weak; the parent company had earlier discussed the possibility of financial assistance with his Department but had then withdrawn their proposals. The present crisis had been precipitated by recent public statements in the United States by the Chrysler Corporation. For the Government to take over complete financial responsibility for Chrysler (UK) Ltd would be an open-ended commitment. The company's market share had fallen from 10 per cent to 5 per cent in 12 months: it was certainly lower than 5 per cent now. Even a share of 5 per cent was too small to offer any prospects of viability. If the Government sought to preserve Chrysler (UK) Ltd the future of British Leyland would be put at risk, thus jeopardising the cornerstone of the Government's policy for the motorcar industry. Moreover the Vauxhall company were also known to be in difficulty and would almost certainly seek Government support if Chrysler were rescued. The recent study by the Central Policy Review Staff made clear that there was excess capacity not only in this country but in the whole of Europe, and recommended that capacity should be reduced in Britain,
The Trade and Industry Sub-Committee of the Select Committee on Expenditure had also concluded that there was excess capacity. Against this background the preservation of Chrysler at the taxpayer's expense could not be justified.

Closure would result in the loss of 25,000 jobs directly, with additional losses among component manufacturers and dealers. There was no prospect of early re-employment for such numbers and industrial action would be likely to follow. He had pressed Chrysler about extending the rundown over a longer period to ease the problems of redundancy but they had been adamant that they would make no more money available. It was nevertheless his view that further efforts should be made to secure a slower rundown and that the Government should be prepared to contribute towards the cost of this. He was also examining the desirability of introducing temporary import restrictions on motorcars to ensure that the share of the British market which had been held by Chrysler was secured by British production and not lost to a further increase in imports. An examination was also being made of how Chrysler's important contract with Iran could be preserved for Britain.

In discussion it was argued that closure would represent the biggest industrial collapse in the history of this country. Chrysler had given repeated undertakings to the Government about their future intentions when they had acquired the former Rootes company: and the White Paper on the "Regeneration of British Industry" had foreseen compulsory acquisition in circumstances such as these. Vigorous action should be taken to preserve Chrysler (UK) Ltd; this could include the Government taking control of Chrysler (UK) and requiring Chrysler to disclose information about its affairs, representations to the United States Government and a prohibition on imports from Chrysler's other overseas subsidiaries. It was further argued that closure would have very damaging effects on relationships with the trades union movement and in Scotland. It was an essential feature of the Government policy on devolution that the economic integrity of the United Kingdom had to be preserved and overall control of the economy exercised from Westminster. Closure of Chrysler's plant at Linwood would mean the disappearance of the motorcar industry from Scotland: it would be seen as an abuse of central control and a body blow to the Government's devolution proposals. Closure also had to be seen against the prospects for contraction in other industry in Scotland, and particularly in Clydeside. More time was needed to explore options other than complete closure before final decisions were reached: it would also be essential to consult the leaders of the trades unions most closely concerned.
On the other hand it was strongly argued there was no basis on which Chrysler (UK) Ltd could be made viable and consequently no alternative to allowing its closure to go ahead. If the Government once acquired the company in order to provide time for a fuller investigation of all the alternatives, it was extremely doubtful whether they would then be able to go ahead with a close-down even if it was then manifest that there was no prospect of the company becoming viable. Nor was it clear what could be achieved by making representations to the United States Government; they had no locus in the matter. The Government's efforts should now be concentrated on a study of means for mitigating the effects of a close-down, including prolongation of the rundown period, generous redundancy payments, restrictions on imports, and the continuation of the Chrysler contract with Iran. Particular attention should be paid to the problems of the Chrysler plant in Scotland.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet was not being asked to take final decisions at this meeting. Much work remained to be done; but he had felt it right that the Cabinet should be put fully in the picture at this stage. A group of senior Ministers was considering all the possible courses of action, and would take account of the points which had been made in the Cabinet discussion. No announcement would be made before Parliament was prorogued. A full report would be made to the Cabinet shortly to provide a basis for final decisions.

The Cabinet -

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

Cabinet Office
12 November 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on THURSDAY 13 NOVEMBER 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 William Ross MP Secretary of State for Scotland

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 Roy Mason MP Secretary of State for Defence

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 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 Joel Barnett MP
Chief Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr J A Hamilton
Mr J A Marshall

SUBJECT

PUBLIC EXPENDITURE
The Cabinet considered public expenditure. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

13 November 1975
The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 117), a memorandum by the Secretary of State for the Environment (C(75) 120) and a note by the Chairman of the Steering Committee on Economic Strategy (C(75) 118) dealing with public expenditure in the period up to 1979-80.

The Chancellor of the Exchequer said that the Cabinet had the previous week discussed the short-term economic situation, and had agreed on the approach to be adopted to the problems it presented. The questions now to be considered related to the period from early 1977 on, when output was likely to be rising rapidly, and there was almost certain to be a shortage of resources and of finance. The fundamental question was how much of the available resources should be earmarked for investment and the balance of payments; and how should the rest be allocated. In order to get the country out of its present economic difficulties it would be essential to make room for more productive investment and for increased exports (or import substitution). What he was proposing was to make room for an increase of 10 per cent a year in investment from the present very low base. If this was not achieved, the country might lose forever the chance of recovering its position. Such an increase was by no means unrealistic, similar and indeed higher rates of increase having been achieved in the past. He pointed out that the level of investment called for in the Labour Party document "Labour and Industry: The Next Steps" would be 15 per cent higher than that which he was envisaging, and would require a cut of £1,000 million in public expenditure over and above that which he was proposing. On the balance of payments, he was clear that the country must aim at getting into balance on external account by 1978. Even if this were achieved, the accumulated external debt in the period up to 1978 would be of the order of £15,000 million, and if this went any higher the cost of servicing it could take up the whole of the external income from North Sea oil. More immediately, unless we were seen to be
moving towards the possibility of external balance, it might well prove impossible in the interim to borrow overseas in order to finance the current account deficit, and the Government would then be forced to borrow from international institutions on conditions which would almost certainly include public expenditure cuts even more severe than those now contemplated. He was aware of the view held by some that neither the productive investment nor the balance of payments target might be met, but he did not see that this justified planning higher public expenditure which would automatically pre-empt resources and make these targets quite impossible of achievement. If they were not achieved the Government would need to consider more extreme measures and still make public expenditure reductions on the scale he had put forward.

On the financial prospects, he observed that at present the public sector was borrowing 20p for every £1 which it spent. Of that 20p, 2 1/2p was borrowed abroad and 17 1/2p at home. The growing burden of interest payments on this debt placed added strain on both real and financial resources. At present it was possible to borrow at home because private savings were high and productive investment low. Once the recession was easing, people would be likely to save less and the company sector would have the incentive to transfer financial resources into the productive investment which was essential to recovery. If the Government attempted to continue with a public sector borrowing requirement (PSBR) at the present level it would either have to print money, as the previous Administration had done, with disastrous consequences for inflation, or it would have to raise interest rates, which would choke off the essential industrial investment and would seriously damage the housing programme because the local authorities would not be able to afford to borrow. The Government could not continue with a borrowing requirement of anything remotely approaching the present level of £12,000 million - even allowing for the fact that some £3,000 million of this was directly attributable to the recession and would disappear as the economy recovered.

On taxation, he said that there was no escape from some tax increases in the years ahead, even if public expenditure were cut by the £3,750 million in 1978-79 which he proposed. Suggestions had been made that indirect taxes and corporate taxes should be raised rather than expenditure cut, but if indirect taxes were raised beyond the rate of inflation (and he would in any case have to raise them to that extent) the effect was to put up the cost of living and make trades union support of the Government's incomes policy much harder to retain. Higher corporate taxation would result in a reduction in the essential investment which the Government wished to see, or lead to cash flow difficulties, or result in increases in prices. It followed that the only real scope for tax increases lay in the field of income
tax. Even the "formula cuts" of just under £2,000 million in 1978-79 would still require - depending upon the level of private and corporate saving - an increase of 5-9p in the standard rate of income tax. With national insurance contributions, this would mean that once a wage earner had crossed the tax threshold he would be facing a marginal tax rate of 45-50 per cent. In his view the Government could neither win the next Election nor hold their pay policy on that basis; the high rates of tax meant that the trades unions would wish to start bargaining on post-tax increases in pay. There was also the additional problem of relieving low earners from income tax. Increasing numbers of low income recipients were being drawn into the tax net, and a family on two-thirds average earnings, which 15 years ago paid tax at 4p in the pound, was now paying tax at 20p in the pound. Had he raised the tax threshold to the extent he considered desirable this year, he would have had to increase the standard rate by 4p instead of 2p. In his view the high income tax rates were generating hostility to public expenditure among the Labour Party's own supporters. If the forecasts proved wrong, and there was slack in the economy in the period under review, the most sensible use to be made of that room for manoeuvre would be to raise the tax threshold, rather than to increase public expenditure. He pointed out that public expenditure over the last three years had risen by over 18 per cent in real terms, whereas the gross domestic product (GDP) had probably risen by only $1\frac{1}{2}$ per cent. There had been an enormous shift of employment into the public sector, expenditure on which now represented 60 per cent of the GDP compared with 45 per cent in 1965. Public expenditure was still not being held down to the planned rate, and in 1975-76 would probably be some 4 per cent more than the previous year, against the planned increase of $1\frac{1}{2}$ per cent. 1976-77 would only be marginally down on the current year, which meant it would be 3 per cent more than was forecast in the last public expenditure White Paper. He considered it essential to take as the target for the cuts the upper end of his range, ie £3,750 million at 1975 prices. Even this was based upon assumptions about the growth of productivity which might well prove optimistic. What was quite clear was that if cuts on this scale were not made, there was a very grave risk of economic disaster. He did not believe such cuts would be unpopular with the country, certainly compared with the alternative of substantial increases in income tax.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he fully accepted the economic objectives propounded by the Chancellor of the Exchequer. His disagreement related to the size and the timing of the proposed cuts. He found the economic scenario presented by the Treasury to be highly improbable. He did not believe that it was likely that we would achieve external balance by 1978, and he doubted whether it was, in any case, a sensible aim. On investment he accepted that there had been high rates of increase in the past, but
reminded the Cabinet that these had been achieved on the back of a boom, and not against the background of a depressed and deflated economy. In his view there would be no pressure on resources in 1978, and to make public expenditure cuts of the size proposed by the Chancellor would be to dig a hole which would remain unfilled. Nevertheless, he accepted that there was a financing problem, that the PSBR needed to be reduced - and that some cuts in public expenditure were therefore inevitable - although he saw a danger that if there were still slack in the economy in 1978, the public expenditure cuts might have the perverse effect of leading to some increase in the borrowing requirement. He agreed that income tax was now biting dangerously hard but considered there was scope for substantial increases in indirect taxes. In his opinion a cut of £3,750 million was too high, and he proposed instead a cut of £2,500 million of which £500 million would be "on the shelf" in the sense that it would consist of planned cuts to be kept on one side until such time as the economic prospects clearly made them necessary. The £2,000 million would be achieved by making all of the "formula cuts" proposed by the Chancellor of the Exchequer, the further £500 million being selected from other options. He regarded the formula cuts as politically tolerable, and pointed out that reductions of this order would leave public expenditure broadly constant at the 1975-76 level, without any absolute cut in the total. This would be a much better proposition to put to the Trades Union Congress (TUC) than the Chancellor's proposal which would lead to an absolute reduction by 1978-79. If - which he did not believe - more reductions were considered necessary, these should be considered against the alternative of increases in indirect taxation, which would in his view be no more difficult to negotiate with the TUC than many of the proposed expenditure cuts. He noted that a number of indirect taxes in this country, notably national insurance contributions, were markedly lower than in other countries of the European Economic Community. His main concern was that the Government should not incur the odium of making cuts on a scale which might never be necessary. Because of the uncertainty about the future, the Cabinet should review the situation again in six months' time, and although they might be little better placed then than now to judge the likely position in 1978-79, this was no argument against regular reviews of the developing position every six months.

In discussion it was argued that the strategy which had been put forward by the Chancellor of the Exchequer was a recipe for economic disaster for the country and political disaster for the Government. It was based upon a number of false assumptions, which needed to be examined. It assumed that a recovery in world trade was coming, which would pull the British economy up with it; but there was no evidence that such a recovery would in fact take place in time to help us. Even if there were such a world recovery, it was assumed that we would benefit from it; but this was by no means certain, since such efficient economies as the German and Japanese might well steal...
a march on British industry by taking most of the benefit themselves. Again, it was assumed that a recovery of output would lead to a reduction in unemployment; but this too was far from sure, and we might find that output increased while unemployment remained unacceptably high. Again, the Chancellor of the Exchequer assumed that private investment would rise; but there could be no certainty that this would be achieved. It was assumed that external balance would be achieved by 1978 by traditional methods; but if there were in fact an upturn in economic activity this was more likely to lead to a larger balance of payments deficit, in which case the Government would be driven to the use of general import controls. The assumptions rested heavily upon the reliability of the forecasts; but the truth was that any forecast could be shown to be plausible in the present fluid situation, and the only moral to draw was that all forecasts were unreliable. It was also assumed that manpower released from the public sector as a result of expenditure cuts would be taken up by private industry; but this was improbable, since the root trouble was that the private sector had not invested sufficiently. The strategy was a strategy for high unemployment. While workers were undoubtedly concerned about the effect of taxation upon their take-home pay, it had to be recognised that the biggest cut in take-home pay came with unemployment, the hardship of which, once the benefit of redundancy payments was expended, was very real. There was a danger that the Government was on the edge of a classic betrayal of the Labour movement, whereby the poor would be made poorer and the Government would accept that public expenditure was of itself an evil. The world was experiencing an international deficiency of demand of a depth and persistence unknown since the 1930s. Because of the level of inflation the Government had been driven to agree a policy for pay with the trades union movement. That pay policy - not just for the current year but for the next three years - would be a central part of the Government's approach, and the relationship with the trades union movement was a vital part of it. The Government must be able to face the next election with the trades unions supporting their policies. For working people the benefits received from social service expenditure were just as important as their cash wage. It had been argued that expenditure cuts were necessary to avoid direct tax increases; but this ignored the effect the cuts could have on the standard of private life. Thus, a family with two children, a take-home wage of £50 a week, living in a council house, could, under the Chancellor's proposals, be £4.80 a week worse off from additional rent on their house, the failure to uprate child support payments, and the phasing out of food subsidies. Cabinet needed to have put before them a more comprehensive picture showing the inter-relationship of fiscal, social and economic policies, so that proper choices could be made between expenditure and taxation. If cuts in planned expenditure were to be made they should not exceed the £2,000 million proposed by the Secretary of State for the Environment, but even this would have to be negotiated with the trades union movement.
The need to discuss these questions with the TUC and the Parliamentary Labour Party was vital, and Cabinet should take no decisions until such discussion had taken place. In these discussions a cut of £2,000 million would be less provocative than one of £3,750 million, though it would be possible in the course of such talks for the Chancellor of the Exchequer to put the case for the higher figure. The Government faced a difficult presentational problem, since the public would not readily understand their making real cuts in public expenditure at a time when unemployment was so high. There could be no certainty about when the world recession would ease or how rapidly the effects of recovery would be felt in the United Kingdom. For this reason, any decisions which might be taken on public expenditure should be tentative.

Against this it was strongly argued that the most urgent problem was not whether the cuts would make too large a hole in 1978-79, but whether the country would be able to get through to 1978-79 without a financial collapse. The risks were not equally balanced: the consequences of failing to achieve the targets put forward by the Chancellor of the Exchequer could be catastrophic; the consequences of setting too high a target could be controlled. Only by accepting the Chancellor's proposals could the Government attain the room for manoeuvre in their economic policies which was lacking at the present time. The need was to achieve a firmer base for the economy, and for this the country's international credit must be maintained, which meant in turn that external balance by 1978 should be seen to be a conscious aim. The major problem facing the Government was still inflation, which had not yet been overcome. To get inflation down to an annual rate of 10 per cent by the end of 1976 was necessary, but could not be represented as a triumph, and such a rate would be an unacceptably high base from which to reflect. Scepticism about the validity of forecasts did not mean that the Government did not have to take responsibility for trying to plan the way out of the present inflationary situation, reviewing the position periodically in the light of the extent to which reality diverged from forecast. It was true that, even if recovery were well under way by 1978, there could be a continuing unemployment problem; but it would not be solved unless inflation were first mastered. Public expenditure was now running at more than 60 per cent of GDP; unless expenditure were curbed and our low rates of increase of GDP improved, the figure would soon by 70 per cent. It was essential to release more resources for industrial investment if we were to have any hope of improving our GDP at a satisfactory rate.

Discussion with the trades union movement was clearly wise, but the Government must go into such discussion with clear agreement on the quantum of the total cut. If the Government were put out of office through failure to deal effectively with the economic crisis, their successors would impose cuts which would take no account of Labour's social priorities.
In further discussion the following points were made -

a. The Government’s existing public commitment on future expenditure would need to be borne in mind. On 21 July, in the debate on the counter-inflation White Paper, the Chancellor of the Exchequer had said - and his words had been previously agreed by his Cabinet colleagues - that:

"It is clear that in carrying the reassessment of spending programmes forward beyond 1976-77, there will at best be very little room for overall growth beyond the reduced level for that year".

b. No final conclusions on the total cuts should be reached and flexibility might be maintained by identifying three possible levels of reduction: one would be a level of cuts below £3,750 million which ought certainly to be achieved. The next would be the £3,750 million; and the last would be some higher figure. The means of achieving any of these levels should be identified and held ready for use as developments in the economy might indicate. This was a further development of the idea of a ‘shelf’ of possible cuts.

c. Such a shelf might be operated in reverse. Under this arrangement the Government would make the maximum cuts it considered necessary, but should be prepared with steps which could be taken if there proved to be greater slack in the economy than forecast - steps which might consist of taxation reductions or expenditure increases, for example in transfer payments.

d. While consultation with the TUC was essential, the strategic economic decisions were the responsibility of the Cabinet. The Cabinet should first agree on the total quantum of cuts they considered necessary given the economic prospect, and it would be important not to allow the TUC to argue the Government down from that figure. Discussion with the TUC should centre on the composition of the cuts needed to achieve the required total,

e. The traditional Labour Party view that higher public expenditure was desirable had been a valid attitude when public expenditure represented some 40 per cent of GDP; but it was questionable whether it should not be revised now that public expenditure represented some 60 per cent of GDP, and the equally traditional counter-arguments about the effect upon incentives of high rates of taxation began to bite.
f. The importance of explaining the case for expenditure cuts to the Parliamentary Labour Party should not be underestimated. It would need to be put in a way which would make quite clear the appalling consequences which would flow from a failure to set the economy right.

THE CHANCELLOR OF THE EXCHEQUER, replying to the discussion, said that if the cuts in public expenditure he proposed were made, and in the event demand proved to be too great, the situation could easily be remedied either by tax reliefs - raising the direct tax threshold, or reducing Value Added Tax and thus cutting the Retail Price Index - or by modifying transfer payments. Generally speaking the use of public expenditure cuts to deal with demand problems was a most inefficient way of proceeding. Given this existing degree of flexibility, he saw no grounds for the proposals which had been made for going for an initial low level of expenditure cut and identifying further cuts to be introduced if the situation warranted. He reminded the Cabinet that the Government were committed to publication of a public expenditure White Paper. In the last two years it had been published late, and, even if decisions were taken that day, this year's version would already be two months late. It was imperative that it be published, since if it were not the Government's international credit might be destroyed ... indeed, it might be necessary for this reason to publish total expenditure figures by the end of the year and before the detailed White Paper was issued. On the question of keeping the level of public expenditure flat, or making an absolute reduction, he reminded the Cabinet that they were concerned not only with the total of Departmental programmes but also with the contingency reserve, the shortfall and the figures for debt interest. If these were taken into account - as they must be - and the cuts were confined to the formula reductions totalling some £2,000 million, then public expenditure would increase by 2.8 per cent in 1976-77 (compared with the 1 per cent forecast), by 2 per cent in 1977-78, and by 1 per cent in 1978-79 - all on the fundamentally optimistic assumptions of the economic forecast. If a cut of £3,000 million were made there would be increases of 2.4 per cent in 1976-77 and 1.2 per cent in 1977-78, with a fall of only 0.5 per cent in 1978-79. Even his proposed cut of £3,750 million would lead to increases of 2.3 per cent in 1976-77, and 0.4 per cent in 1977-78, with a fall of only 0.9 per cent in 1978-79. In considering these figures the Cabinet should remember that they related to a base in 1975-76 which was itself 4 per cent higher than 1974-75. Even if the full £3,750 million of cuts were made, the figures would not be easy to sell to overseas opinion, which was concerned not with individual programmes but with the total burden on the economy. Such overseas opinion could not be ignored, since if later credit tranches from the International Monetary Fund (IMF) had to be called for, public expenditure cuts were certain to be imposed as a condition of
such assistance. He fully accepted that public expenditure would have to be discussed with the TUC, but he was equally clear that it should be on the basis of the Government's own view of the quantum - recognising that that figure would almost certainly leak. Once the decision on quantum had been taken, it would be possible to spend perhaps a month discussing priorities within that quantum with the TUC, but agreement would be needed by Christmas or soon after.
THE PRIME MINISTER, summing up the discussion, said that by a small majority the Cabinet agreed that a reduction in public expenditure of £3,750 million in 1978-79 should be made, as proposed by the Chancellor of the Exchequer. The next step would be for the Chief Secretary, Treasury, to conduct bilateral discussions on this basis with spending Ministers to consider what contribution would be needed from their programmes to make up the required total. He should report back to the Cabinet in two to three weeks' time; and the Cabinet would then resume their discussion with a view to taking final decisions as quickly as possible. At the next stage they would be concentrating on priorities between programmes rather than on the total cut, although it was possible that there might then have to be some small adjustment in the latter. In the meantime it would be helpful if Ministers who had views on expenditure priorities, not merely in relation to their own Departmental spending but on the relative priorities of other programmes, would send their views in writing to the Chief Secretary, Treasury. Further consideration could be given to the idea of a reserve or shelf which could be activated if the forecast proved to be wrong, but in general the effect of public expenditure changes was not sufficiently quick-acting for control of demand, save in the field of transfer payments. In any case it might be better for such a shelf to consist of cuts which could be restored rather than further cuts to be made. There should be discussions with the TUC to ascertain their views on priorities between programmes, though not on the size of the total cut.

The Cabinet -

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

2. Invited the Chief Secretary, Treasury, to discuss bilaterally with spending Ministers the contributions which would be needed from their programmes to make up the total cut of £3,750 million in 1978-79 which Cabinet had agreed to be necessary; and to report back to the Cabinet within two to three weeks.

3. Invited the Chancellor of the Exchequer, after consultation with the Prime Minister, to arrange for consultations with the Trades Union Congress to ascertain their views on how the total cut of £3,750 million might be distributed between different programmes.

Cabinet Office
14 November 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 18 NOVEMBER 1975
at 2.30 pm

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 Anthony Wedgwood Benn MP
Secretary of State for Energy
(Items 1-4)

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

The Rt Hon Peter Shore MP
Secretary of State for Trade (Items 1-3)

The Rt Hon William Ross MP
Secretary of State for Scotland

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

The 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 Lord Shepherd
Lord Privy Seal

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

The Rt Hon Robert Mellish MP
Parliamentary Secretary, Treasury

ALSO PRESENT

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Item 5)

The Lord Crowther-Hunt
Minister of State, Department of
Education and Science (Item 5)

SECRETARIAT

Sir John Hunt
Mr G R Denman (Items 2 and 3)
Mr P Benner (Items 1, 3 and 4)
Mr D L Pearson (Item 3)
Mr T F Brenchley (Item 2)
Mr J A Marshall (Items 5 and 6)
Mr A D Gordon-Brown (Item 4)
Mr A M Macpherson (Items 5 and 6)
Mr W R Tomkys (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.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the Minister of State for Foreign and Commonwealth Affairs, Mr Hattersley, had returned from Reykjavik without reaching any agreement with the Icelandic Government on fisheries. Whereas the Defence and Oversea Policy Committee had given him a mandate to settle for 100,000 tons, the British fishing industry, just before his departure for Reykjavik, had said that they would support the Government on an agreement as low as 80,000 tons if necessary, though he was not sure how firm they were on that point. However, Mr Hattersley had found the Icelandic Government unwilling to make any advance on their offer of 65,000 tons except to the very minor extent that they were willing to interpret this as 65,000 tons of cod only, which might mean a total catch of 70,000 tons, allowing for other species of fish caught by accident. Mr Hattersley had reduced our bid from 130,000 tons to 110,000 tons and had hinted at his willingness to come down further if the Icelandic side could make a further advance. They had however been unwilling to make any move to bridge the gap, and he had judged it tactically inadvisable to offer any further concession at this stage. Mr Hattersley's assessment was that there was no point in making a new approach to the Icelanders for a few weeks. In the short term the Icelandic fishing industry was losing through the lack of an agreement, since our industry would be able to go on catching up to 130,000 tons a year. Moreover, the Icelandic Government might well be able to reach a bilateral agreement with the Federal German Government in the very near future; at that point it would be their lack of agreement with us which would prevent tariff-free access to the Community market for Icelandic fish, under the provisions of Protocol 6. These factors might persuade the Icelanders to return to the conference table. However, looking further ahead, it was likely that the concept of a 200-mile Exclusive Economic Zone would receive further support at the session of the United Nations Law of the Sea Conference (UNLOSC) next spring. This might lead to action by additional countries, particularly the United States of America, to claim exclusive fishing rights within a 200-mile limit, which in turn would strengthen the Icelandic position. He had asked Mr Hattersley to prepare a paper for the Defence and Oversea Policy Committee and in it to deal with both our negotiating position for the next round of talks and the situation we were likely to face after the next session of UNLOSC. Meanwhile, there was the problem of protection for our fishing vessels. Even before Mr Hattersley arrived in Iceland on 15 November the Icelandic coastguard had cut the warps of two of our trawlers; Mr Hattersley had made a vigorous protest to the Icelandic Foreign Minister.
Mr Agustsson. He understood that the three civilian fishery protection vessels we had chartered were already on their way to the fishing grounds. It might also be necessary to reconsider the period of notice at which Royal Navy ships were being held. The Defence and Oversea Policy Committee had identified four levels of protection for our trawlers. We seemed to be proceeding rapidly through the first three of these and might soon be into the fourth level at which Royal Navy ships would be required to take action.

In discussion it was argued that the reopening of negotiations should be regarded as an urgent matter since otherwise there were bound to be unpleasant incidents which would inflame opinion and make negotiations more difficult. On the other hand it seemed that the present mood of the Icelanders was to pocket whatever concessions we offered and ask for more, in which case an early resumption of talks with them would be undesirable. The Minister of Agriculture, Fisheries and Food would be having a meeting with the British fishing industry representatives on 19 November, at which their attitude to a settlement on a catch as low as 80,000 tons could be clarified. As for protection of the fishing fleet the Government had moved more decisively than the last Administration. The three civilian fishery protection vessels already chartered were moving into position now and would be ready to start providing protection off Iceland within 24 hours. They were good seagoing vessels and sufficiently strongly constructed to deter an Icelandic gunboat by interposing themselves between the gunboat and British trawlers. But they were slower than the gunboats and for this reason a fast tug was also being chartered which would have sufficient speed to be able to shadow a gunboat. During the last cod war five civilian protection vessels had proved sufficiently effective for fishing to continue for 12 months before Royal Navy ships became involved. On this occasion it was possible that the British industry might ask for much earlier Royal Navy intervention. The present availability of frigates was that HMS Leopard was off North Norway and could be in position off Iceland within three days. HMS Lowestoft was in transit from Hamburg to Portsmouth and could, if the situation required, go on to Rosyth, so as to be closer to Icelandic waters. A more immediate measure, which might be useful to our trawlers and would also demonstrate the Government's determination to provide protection, would be for a Nimrod reconnaissance aircraft to fly to a position off Iceland at dawn the following day; the hours of daylight would suffice for it to survey the fishing areas between 12 and 50 miles off the Icelandic coast in a single reconnaissance, although it would not be able to cover the whole 200-mile zone. No infringement of Icelandic air space would be involved, and the aircraft would be able to warn trawlers if Icelandic gunboats were in the vicinity.
In further discussion disappointment was expressed that the Federal German Government seemed to be on the point of concluding an agreement with Iceland without regard to our position; on the other hand it was pointed out that such an agreement would not in any way weaken our bargaining strength derived from Protocol 6, since the Icelanders could not get tariff-free access to the Community market for their fish until they had reached agreement with all members of the Community concerned. It was suggested that a threat of extension of the United Kingdom fishing limit to 200 miles would bring pressure on the Icelanders since some of their trawlers fished for herring off the British coasts. On the other hand it was pointed out that, quite apart from the international difficulties that such a threat would involve, the Icelanders seemed ready for reasons of conservation to agree to a total ban on herring catches in the North Sea, in which case their fishing off British coasts would in any case come to an end. It was suggested that a threat of extension would bring pressure on the Icelanders since some of their trawlers fished for herring off the British coasts. On the other hand it was pointed out that, quite apart from the international difficulties that such a threat would involve, the Icelanders seemed ready for reasons of conservation to agree to a total ban on herring catches in the North Sea, in which case their fishing off British coasts would in any case come to an end. It was suggested that a message to the Prime Minister which was reported to be on its way from the Icelandic Prime Minister might provide an opportunity for a reopening of negotiations; however it seemed that this message would contain little more than a plea for special consideration for Iceland's difficulties and would not advance the negotiations in any way.

THE PRIME MINISTER, summing up the discussion, said that Mr Hattersley's paper should be circulated as soon as possible for consideration by the Defence and Oversea Policy Committee. The speed with which protection by civilian vessels was being provided was satisfactory. For the time being there was no need to do more than take note of the current state of readiness of Royal Navy frigates. However the Cabinet authorised the use of Nimrods for one or more reconnaissance flights off Iceland, subject to consultation between the Secretary of State for Defence and the Foreign and Commonwealth Secretary on the timing of such flights.

The Cabinet -

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

THE PRIME MINISTER said that all who had participated in the Summit at Rambouillet were agreed that it had been more successful than had been expected. President Ford had been very optimistic about the strength of the United States economic recovery, but others had been more cautious and he had himself expressed his concern lest the upturn be choked off by renewed inflation or attempts to correct budgetary deficits too quickly. The Declaration, which would be published as a White Paper, had reflected British insistence on the
need for responsiveness and flexibility by the stronger economies in promoting the world recovery - and particular attention had been paid to the problem of unemployment. The progress that had been made in reconciling the French and United States views on parity relationships was to be welcomed. All the participants had been in favour of trade expansion and opposed to general import controls. He had however repeated our position on the selective and temporary use of controls in words which he had used in the House of Commons. President Ford had been helpful on this point with his reference to "acute and exceptional" circumstances which might justify action in the short term to protect an industry which was viable in normal conditions but which might succumb to abnormal outside pressure. The meeting had resisted suggestions for continuing arrangements to follow up its work: this would instead be done through existing institutions and the appropriate international organisations.

In discussion there was a general welcome for the fact that the conference had been able to take a forthcoming stance on world trade while enabling us to preserve our own necessary options. The general attitude seemed to be that the participants were not looking for the excuse to adopt protectionist measures but reserved the right to take selective action in extreme cases. The principles of the Organisation for Economic Co-operation and Development Trade pledge had been confirmed but no new commitment had been undertaken. The agreement on monetary matters was perhaps less striking than had been portrayed in the Press. The only real change was that the Federal Reserve Bank would smooth out erratic fluctuations in exchange rates, a task which was regarded as a normal duty by other central banks. Nevertheless the abandonment of the French extreme view on fixed parities was a welcome development. The French were clearly determined to extract the maximum kudos and leverage from the Conference on International Economic Co-operation but we had successfully resisted their attempt to place all the problems of the developing countries, including stabilisation of their export earnings and commodity agreements, into the context of the dialogue between producers and consumers.

The Cabinet -

2. Took note, with approval, of the statement by the Prime Minister.
3. The Cabinet considered a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (C(75) 122) about the line to be taken at the meeting of the European Council on 1 and 2 December in discussion of proposals for direct elections to the European Assembly.

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that members of the European Assembly were at present nominated from among members of national Parliaments, but that the Treaty of Rome provided for the Assembly to make proposals for elections by direct universal suffrage in accordance with a uniform procedure in all Member States. The subject had been under consideration by the original members of the Community for something approaching twenty years, and by December 1974 all but Britain and Denmark had subscribed to the aim of reaching decisions in 1976 which would permit elections by direct universal suffrage in or after 1978. The European Council would have before it the report of an ad hoc working party (Annex C of his paper) about the problems which would be involved. The Council would not reach final decisions on these matters in December, and there was much to be said for an unhurried approach. Indeed there might be advantage in inviting the Presidency or M. Tindemans to consider the matter further and make proposals in 1976. Nevertheless it would be helpful to have an indication of the Cabinet's attitude. The general view in the Community seemed to be that direct elections should as far as possible be conducted in accordance with national procedures and not on a uniform basis. This was to be welcomed. We ought however to consider our attitude on the size of the Assembly and the distribution of seats and on whether there should be simultaneous or near-simultaneous elections in all member countries. His own preference was for an Assembly of 350 and a common election day. He had already made it clear that these issues, and other matters such as the eligibility of Peers and Members of Parliament to stand for the European Assembly, would need in due course to be publicly debated in the United Kingdom, possibly on the basis of a Green Paper; and he had also said that he regarded 1978 as an unduly optimistic date on practical grounds for the introduction of direct elections.

The report was concerned with procedures for direct elections and the powers of the Assembly were not under serious discussion at present. His own view was nevertheless that a directly elected Assembly might well seek enlarged powers in due course. The result might be to increase the influence of the Assembly and of the Council of Ministers at the expense of the Commission; but any decision to increase Assembly powers would be subject to control by the Council and ultimately by national Parliaments.
THE LORD PRESIDENT OF THE COUNCIL expressed his general support for the memorandum by the Foreign and Commonwealth Secretary. Careful consideration would need to be given to the relationship between the Westminster Parliament and the European Assembly; and in the course of discussions on direct elections careful account would also have to be taken of developments in the field of devolution in the United Kingdom and the proposed Speakers Conference on Electoral Reform. On the size of the European Assembly he favoured a figure of about 400 members rather than 350 since this would give us better representation.

THE HOME SECRETARY also expressed general support for these proposals. His preference was for an Assembly of 350 and for elections taking place not necessarily on a common day but within a common week. In this way it might be possible to arrange for the elections to coincide with local elections in the United Kingdom, so that one set of elections could buttress the turn-out for the other.

In discussion it was argued that although the Treaty of Rome implied a commitment to direct elections the issue had not emerged in the course of the referendum campaign. Bringing it forward now would be likely to reopen old controversies and there was in any case no pressure here in favour of direct elections. Our experience of the European Assembly was substantially less than that of the original members. They had participated for some 17 years; the experience of Labour Party representatives was limited to the last few months. This was a cogent argument in favour of a slow and carefully considered approach on our part. Furthermore it was questionable whether we should contemplate introducing direct elections without considering more closely the question of powers for the European Assembly. A directly elected Assembly would compete with national Parliaments for powers, and might serve to bolster the influence of the Commission against the Council and national Parliaments. The implications would need to be fully discussed in Parliament in the light of the major constitutional issues involved, including the impetus which direct elections might give towards a federated Europe.

On the other hand it was argued that we were committed to direct elections by the Treaty of Rome and our own referendum. Their main effect would merely be to legitimise and make more democratic the powers already enjoyed by the Assembly. But they would also help to give greater reality to the improved methods for financial and democratic control in the Community which we and others wanted to see. Any further extension of the powers of the Assembly was a quite separate issue and would be for later decision when we would of course have a veto. There was in any case no reason why direct elections should of themselves lead to an increase in the influence of the Assembly: the reverse might well
be the case. The present situation was most unsatisfactory and we had nothing to fear from taking a step which most people in the Community wanted.

THE PRIME MINISTER, summing up the discussion, said that the issue of direct elections raised complex and difficult issues on which we should need to proceed slowly and with caution. The Cabinet accepted however that we were committed to direct elections and in any case the present position over nominated members was inherently unsatisfactory. The proposals of the Foreign and Commonwealth Secretary would provide a basis for the line he would take at the next meeting of the European Council, but he would not enter into any commitment at that stage. In any case there was no question of legislation on direct elections in the new Session. Following the European Council meeting the Foreign and Commonwealth Secretary should consider further the preparation of a Green Paper, its contents and timing; and should bring the matter before the Cabinet again at the appropriate stage.

The Cabinet -

Took note, with approval, of the Prime Minister’s summing up of their discussion.
4. The Cabinet considered a memorandum by the Home Secretary (C(75) 121) putting forward proposals for reconvening a Speaker's Conference to consider electoral reform and a number of other matters.

**THE HOME SECRETARY** said that a number of items had been left unfinished from the Speaker's Conference which had been interrupted by the General Election in February 1974, for instance Election expenses; and several additional items for reference to a Conference had been suggested subsequently. In his view there was no question but that the Conference should be reconvened in the coming Session to consider these items. It would then be very difficult not to refer to it the question of electoral reform, although those most in favour of electoral reform were unenthusiastic about this course. Speaker's Conferences had examined this subject in the past - most recently in 1966-67 - when interest in it was less, and it would be untenable not to refer the subject to the Conference now. After discussion with the Prime Minister and the Lord President of the Council he had already informed the other Parties that the possibility of such a reference would be considered. The present narrow balance between the Parties in the House of Commons, and the existence of the minority Parties, could cause problems over the composition of the Conference. His proposal, which he thought might just gain acceptance, was for 15 Labour MPs, 12 Conservatives, one Liberal and one Scottish National Party Member, together with the Speaker. The Secretary of State for Northern Ireland, who was unable to be present, had said that it would be difficult to exclude Ulster Unionists; but it would equally be impossible to reduce the Conservative representation to 11, and a possible alternative to his proposal would be simply to add an Ulster Unionist MP, giving equal numbers of Labour MPs and Members from the other Parties. Because those who wanted electoral reform regarded the Speaker's Conference as an unsatisfactory body to consider this subject, he proposed as a sweetener the establishment of an additional independent body to prepare the ground for consideration by the Conference by making a survey of the various systems of proportional representation.

In discussion there was general agreement that the Speaker's Conference should be reconvened to consider the matters other than electoral reform, but differing views were expressed on the desirability of referring electoral reform to the Conference. In favour of this course it was argued that electoral reform was a major and serious issue which ought to be looked at. A Labour Government should not be afraid to initiate informed debate, and discussion of this subject in the country would receive added stimulus from the Devolution Bill and the proposals for direct election to the European Parliament. The subject would be very difficult to handle if it were not referred to the Speaker's Conference, whereas a reference to the
Conference would be tactically advantageous so as to reduce the pressure. And the likely outcome was that no change in the present electoral arrangements would be recommended. On the other hand it was argued that proportional representation was totally unacceptable, and would have damaging consequences both to the Labour Party and to the Government of the country. The Conservative Party were against proportional representation; and if no concession of any kind were offered, the pressure for electoral reform, which was narrowly based, would blow itself out. In these circumstances it would be a serious mistake to refer the subject to the Speaker's Conference. The point was also made that if electoral reform was referred to the Conference, further thought should be given to the proposal for a separate body to prepare a report for the Conference on proportional representation. This report might well be highly misleading by presenting some form of proportional representation as the only serious proposition for consideration; and if the Conference felt the need for expert advice, it could perfectly well make its own arrangements for obtaining it.

THE PRIME MINISTER, summing up the discussion, said the Cabinet agreed that the Speaker's Conference should be reconvened to consider the matters other than electoral reform. A majority of the Cabinet saw substantial objections to the reference of electoral reform to the Conference, and the Government should therefore not take any initiative in proposing this. The question of the size and composition of the Conference could give rise to difficulty, and the Home Secretary, in consultation with the Lord President of the Council and the Chief Whip, should give further thought to this problem. Proposals for reconvening the Conference to consider the matters other than electoral reform should then be put to the other Parties. A new situation would be created if a significant demand then arose for electoral reform also to be referred to the Conference; and the question would have to be brought back to the Cabinet for further consideration.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Ministers concerned to proceed accordingly.
5. The Cabinet considered a memorandum by the Secretary of State for the Environment (C(75) 123), a note by the Chancellor of the Exchequer, to which was attached a note by the Chief Secretary, Treasury, (C(75) 124) and a memorandum by the Central Policy Review Staff (C(75) 125) about the level of rate support grant in 1976-77.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the amount of local authority expenditure which was to be accepted as relevant expenditure for grant purposes had already been settled in negotiation. The distribution of the grant between different kinds of local authority had also been settled. What was now in question was the level of grant. A meeting of Ministers on 10 November had been unable to reach agreement on what the rate should be. In 1975-76 it was 66f per cent. The Chief Secretary, Treasury, had maintained that it should be reduced to 64f per cent next year; but the rest of the Group had taken the view that it should remain at 66f per cent. The Treasury contended that the grant should assume that local authority expenditure in 1976-77 would be no higher in real terms than in the current year; and that the authorities would accept that, in line with Government counter-inflation policy, inflation between November 1975 and mid-1976-77 would run at 7 per cent (equivalent to an annual rate of 10-11 per cent). Both these contentions were unrealistic. Local authorities would not be able to reach an absolute standstill in their expenditure during 1976-77, and were more likely to overspend by about 1 per cent. This would still be a considerable achievement and would mean that local authorities had reduced the rate of increase in their expenditure over a 3 year period from 10 per cent to 5 per cent and then to 1 per cent. Nor could local authorities be expected to agree the 7 per cent figure for inflation - 10-12 per cent was a more probable assumption on their part. On that basis, if the rate support grant percentage were reduced to 64 per cent or 65 per cent, the domestic rate poundages were likely to increase by 15-31 per cent or 18-35 per cent respectively. A reduction in the rate of grant would have unwelcome political consequences. It would be an affront to the Consultative Council on Local Government Finance who had up to now co-operated most loyally with the Government in seeking ways of cutting back local government expenditure. The local authorities would undoubtedly regard a cut as a betrayal by the Government of the trust that had been built up since the Council was established. If this co-operation were lost, it would react adversely on expenditure control. Furthermore, the rate increases implied by a 64f per cent grant would bite just when the Government's counter-inflation policy was likely to be under strain. This could place the incomes policy at risk. Finally, rate increases would be widely unpopular, and this unpopularity would be reflected in the local authority elections in May. The percentage of the rate support grant to be borne by the Central Government was essentially a political issue. The question was
whether, for no gain in public expenditure terms, the Government should risk breaking excellent relations with the local authorities, provoking dangerously high rate increases in spring 1976 and putting themselves in a scapegoat position in the local elections in May 1976.

THE CHIEF SECRETARY, TREASURY, said that although the question did not affect the Public Expenditure Survey Committee (PESC) total, the essential issue was how to cut back the expenditure of the local authorities. They had consistently been spending a great deal more than had been budgeted for. The Government was tackling this problem in various ways, eg through cash limits. But the main method of control was still through the rate support grant. At 64\(\frac{1}{2}\) per cent the rate of central Government support for local authority expenditure in 1976-77 should give local authorities sufficient cash to finance the volume of current expenditure already approved by the Government for that year and also to meet any pay and price increases at an annual rate of around 11 per cent, without any increase in average rate poundages. If a higher percentage were paid, this would give the local authorities spare money to spend; a rate of 66\(\frac{1}{2}\) per cent would provide at least £200 million of spare spending money. This would be regarded as unwarranted extravagance, and taken as an indication that the Government was not really serious when it talked about reducing local government expenditure. He agreed that the issue should be viewed in political terms, but in his view the Government would gain much more politically from a demonstration that they were determined to place an effective curb on local authority expenditure. This was what many of their supporters expected of them and they would not be seen to be doing it if they agreed that the percentage rate of grant should remain at 66\(\frac{1}{2}\) per cent.

He questioned whether the local authorities would in fact make different assumptions about the annual percentage rate of inflation towards the end of 1976. But even if local authority fears about the success of the counter-inflation policy proved to be justified, he had given them an assurance that the Government was prepared to review the cash limits on their grants if the pace of inflation generally, or the rate of price increases affecting local authority expenditure, were to be substantially higher than those implied in the cash limits. Even if local authorities did spend an extra 1 per cent, as the Secretary of State for the Environment suggested they would, it was not for the Government to offer to finance it. He valued the co-operation of the Consultative Council on Local Government Finance and could testify from his own experience in discussion with the Council, that they would not regard a reduction in the percentage rate of grant support as a betrayal. During all the meetings of the Council which he had attended recently, there had been no dispute that the annual rate of inflation at the end of 1976 was likely to be between 10 and
11 per cent. He was sure that the Consultative Council expected the Government to behave in a tough and consistent manner. It was for this reason that he recommended the rate of grant should be 64\(\frac{1}{2}\) per cent.

In discussion it was argued that one of the most important considerations of all was that to cut the rate of grant to 64\(\frac{1}{2}\) per cent would be seen by the local authorities as a breach of faith, particularly in the year when cash limits were being introduced and had been accepted by the local authority representatives. The Consultative Council had so far proved to be a great success, and its meetings had engendered a great fund of goodwill on the part of local authorities for the Government's objectives, and all of this would be put in jeopardy if the local authority side felt that they had been betrayed. The local authorities had been pressed to agree to a standstill on expenditure in 1976-77, and they would naturally expect this to be accompanied by a standstill in the rate of grant. Whatever decision was taken, there would be an appreciable increase in rate demands next year, and if the grant rate were cut to 64\(\frac{1}{2}\) per cent the Government would undoubtedly be blamed whether justifiably or not. A lower rate of grant could be very damaging politically for the Government, and remembering that the decision would have to be approved by the House of Commons, it might put many of the Government's own supporters in an extremely difficult position.

Against this it was argued that the most important factor in the situation was the need to bring local authority expenditure under control. Local authorities had consistently spent more than had been planned, and if the rate of grant were fixed at 64\(\frac{1}{2}\) per cent this would be a strong incentive upon them to squeeze their expenditure. It should be remembered that, by the time rate poundages came to be fixed, most of the local authority pay increases would have been settled, so that a large part of the uncertainty which local Treasurers might face would be gone. To fix the rate at 66\(\frac{1}{2}\) per cent meant giving the local authorities £220 million more than was needed to keep their expenditure next year at the same level as in 1975-76, and was therefore directly inimical to better expenditure control. On the political plane, it was argued that if, as was indicated by the figures in C(75) 123, the average increase in rate demands next year would be 16 per cent (if the grant were fixed at 66\(\frac{1}{2}\) per cent and inflation assumed to run at 12 per cent) this would lose just as many votes as a higher increase. What was at issue was the credibility of the Government's counter-inflation policy, and the grant should be fixed at a level which reflected no higher annual rate of inflation than the 11 per cent implied in that policy. The local authorities were already unpopular because of their high spending, and fixing the grant at 64\(\frac{1}{2}\) per cent would be seen as a welcome act of firmness on the part of the Government. Anything more would suggest that the Government was not serious
about its cash limits policy. The Treasury had undertaken to review those limits if the rate of inflation turned out to be seriously different from the rate assumed, and on this basis the 64 1/2 per cent proposal should be accepted.

In further discussion it was suggested that, given the division of view in Cabinet on the issue before them, there might be merit in adopting a compromise proposal. The issue was one of psychology rather than one of arithmetic, and a figure such as 65 1/2 per cent might ensure that the Government was seen to be suitably firm over the expenditure issue without risking an unduly high increase in the average figure for rate demands.

THE PRIME MINISTER, summing up the discussion, said that the issue before Cabinet was an important and difficult one, on which the arguments were finely balanced. It was important to be seen to be keeping a firm control on public expenditure. On the other hand the value of the work which had been done in setting up the Consultative Council and through its meetings obtaining such a high level of co-operation was recognised by everybody, and it would be important not to throw this advantage away. The Cabinet were agreed that a compromise figure of 65 1/2 per cent would be the right level for the rate support grant for 1976-77.

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 inform the local authority representatives at the statutory meeting on 21 November that the rate support grant for 1976-77 would be fixed at 65 1/2 per cent.
6. THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Government faced a difficult situation on junior hospital doctors who had effectively launched a frontal attack on the Government's pay policy. She asked all her colleagues, particularly in speeches before the meeting of the British Medical Association on the following Sunday, to support the Government's stand on hospital doctors' pay, and for this purpose she would arrange for appropriate briefing to be sent to all Ministers.

THE PRIME MINISTER, summing up a brief discussion, said that he was sure that all Ministers would wish to do what had been asked. The Secretary of State for Social Services should call upon the services of the Parliamentary Secretary, Privy Council Office, who had already successfully co-ordinated a great deal of speechmaking on the Government's pay policy.

The Cabinet -

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

Cabinet Office

19 November 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
TUESDAY 25 NOVEMBER 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 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 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 Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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 Fred Peart MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Lord Shepherd
Lord Privy Seal
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THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General

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

The Rt Hon Roy Hattersley MP
Minister of State for Foreign and Commonwealth Affairs (Item 1)

SECRETARIAT

Sir John Hunt
Mr J A Hamilton (Item 2)
Mr T F Brenchley (Item 1)
Mr J D Bryars (Item 1)
Mr C J Farrow (Item 2)
1. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that harassment by Icelandic gunboats was preventing British trawlers fishing off Iceland. On Sunday the skippers had sent a message saying that they would withdraw from the fishing grounds by the following day unless a decision were taken that they would be given Royal Navy protection. Our objective must be to continue fishing on the grounds off Iceland: there was nowhere else for our trawlers to go and thousands of jobs were at stake. Together with Ministers from the other Departments concerned, he had discussed the position with representatives of the fishing industry the previous day. The discussion, which he had reported to the Prime Minister, had established that naval protection was essential to keep the trawlers on the fishing grounds and that the catch with such protection would exceed the amount likely to be allowed under any agreement with Iceland. In consequence arrangements were being made for HMS Leopard to enter the fishing grounds that day to assume control of the civilian support vessels and to organise operations. Further naval vessels would be ready to enter the area on 29 November. An announcement was being made that morning.

THE MINISTER OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS, Mr Hattersley, said that we were continuing to make clear to the Icelanders our wish to reach a settlement and our willingness to be flexible. He had given a personal assurance to that effect to the Icelandic Ambassador that morning. The introduction of naval vessels would reduce marginally the chances of negotiations, but the attitude of the Icelandic Government had in any case been obdurate. On his instructions Her Majesty's Ambassador had asked the Icelandic Prime Minister on Sunday whether the Icelandic attitude would change as a result of the message from the trawler skippers. His answer had been that the Icelandic offer of 65,000 tons was ours to take or leave. The only way to persuade the Icelanders to return to the conference table during the next six months was to demonstrate that with naval protection our trawler fleet could take more fish than they would if an agreement were reached. It was, however, important to observe the needs of conservation of fish stocks, and suitable arrangements to protect the breeding grounds were being worked out by the Ministry of Agriculture, Fisheries and Food with the fishing industry. It must be recognised that the month ahead would be a difficult one, in which the Icelanders would make every effort to carry conviction through the media that our behaviour was both unreasonable and unlawful. Although this was the reverse of the truth, some would believe it.

In discussion it was noted that HMS Falmouth, HMS Brighton and a Royal Fleet Auxiliary would join HMS Leopard off Iceland on 29 November. Sorties by Nimrod reconnaissance aircraft would also be flown. Rules of Engagement would be issued later that day. They
would permit Royal Navy ships to deter and frustrate harassment by Icelandic vessels. They would not permit the firing of weapons except in self-defence. Permission to open fire would be specifically sought from Ministers. In the absence of their Secretaries of State the Minister of State for Foreign and Commonwealth Affairs, Mr Hattersley, and the Minister of State, Ministry of Defence, would be added to the group of Ministers to be consulted in those circumstances.

In further discussion it was noted that no fisheries agreement had yet been concluded between the Icelandic Government and the Federal German Government. A proportionately much larger catch figure had been offered by Iceland to the Federal Republic of Germany than to us because the fish they wished to catch was not cod. But it was by no means certain that the provisional agreement on this basis between the Icelandic and German Governments would be ratified by the Althing. In discussion of the presentation of our case it was argued that full weight should be given to the ruling of the International Court of Justice in July 1974 that Iceland was not entitled unilaterally to exclude British trawlers from waters outside her 12-mile limit: but the balance of advantage was against requesting the International Court of Justice to impose any formal restraint on the action at present being taken by the Icelanders against our vessels. It was suggested that the reduced Icelandic catch of cod provided evidence of stock depletion; on the other hand, much of this reduction was due to Icelandic trawlers being engaged in industrial disputes.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet took note of the arrangements that had been made to provide protection by the Royal Navy for our trawlers. In replying to Questions already put down for Answer in the House of Commons later that day and in other public statements we should be prepared to set out our case fully and to give proper emphasis to the ruling of the International Court of Justice.

The Cabinet -

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

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

Cabinet Office
25 November 1975
CABINET

CONFIDENTIAL ANNEX

CC(75) 50th Conclusions, Minute 2

Tuesday 25 November 1975 at 11.30 am

The Cabinet considered memoranda by the Secretary of State for Industry (C(75) 128), the Secretary of State for Scotland (C(75) 129), the Secretary of State for Employment (C(75) 130) and the Secretary of State for Trade (C(75) 131) about the future of Chrysler (UK) Ltd.

THE SECRETARY OF STATE FOR INDUSTRY said that throughout the year there had been growing doubts about Chrysler's financial position. They had made losses in six of the previous nine years: their losses for the current year would be about £40 million, with the prospect of a similar loss next year. His predecessor had asked the Chairman of Chrysler Corporation to keep him informed about the company's plans. In July the company had discussed the possibility of financial assistance with his Department and had also been in negotiation with Finance for Industry. These discussions had been terminated by Chrysler. The present crisis had been created by a Press conference given by the Chairman of the Chrysler Corporation in the United States on 30 October in which he had hinted at the Group's possible withdrawal from the United Kingdom. At a meeting with the Prime Minister on 3 November the Chairman of the Corporation had said that unless the British Government took over responsibility for all its future losses from the end of November Chrysler (UK) Ltd would be rapidly run down from that date and wound up in a short period.

He had considered a range of possible actions. The first was to take over Chrysler (UK) Ltd as a going concern. This would cost £100–£140 million up to 1979 and would result in 6,000 redundancies. The second was a proposal put forward by the Chrysler Corporation which would preserve some 15,000 jobs out of the company's total employment of 25,000, including 4,000 at Linwood. This would
involve closing the plant at Ryton (Coventry) and the movement of Avenger assembly from there to Linwood. The cost would be £80-£100 million. The third option, which the Ministerial Group on the Automobile Industry had asked to have examined, was to concentrate all the continuing activities of Chrysler (UK)Ltd at Linwood. This would result in 19,000 redundancies and would cost £80 million. The last option for keeping part of Chrysler (UK)Ltd in operation would be to support the continuation of production at Stoke to meet their Iranian contract. This would cost £32 million and 23,000 would be redundant. His reluctant conclusion was that none of these courses could be justified and that the Government must tell Chrysler that they were not willing to take over the firm's responsibilities. The Ministerial Group had invited him to ask Chrysler if they would be prepared to make a financial contribution to the future operation of the United Kingdom company on a continuing basis. The company had replied that they would be prepared to consider the possibility of a contribution towards a production scheme which made commercial and industrial good sense, but that it would be a fixed amount determined in advance and they would not be prepared to increase the amount if losses proved to be larger than presently forecast. He regarded their letter as being designed to enable them to transfer to the Government the future responsibility for the company by agreeing to make a payment which was small in relation to their savings in redundancy payments and other closure costs. He did not believe that the reorganisation scheme proposed by Chrysler would in practice be viable - if it had prospects of viability they would have been prepared to share in its profits or losses on a continuing basis. Only one member of the Industrial Development Advisory Board thought that the Chrysler option could be viable. If assistance were given to Chrysler it would be difficult to refuse assistance also to Vauxhall and the subsidy of their competitors would cause damage to Ford and British Leyland as well. The report by the Central Policy Review Staff which was to be published made clear that there was excess capacity in the industry, while the Trade and Industry Sub-Committee of the Select Committee on Expenditure had severely criticised the Government's support of British Leyland. The National Enterprise Board did not wish to take on this responsibility nor was it Labour Party policy to encumber the Board with unprofitable companies with no reasonable prospect of viability. Against this background he could not justify the preservation of Chrysler (UK)Ltd. He reluctantly concluded that the right course was for the Government to spend money on a redundancy scheme to mitigate the consequences of Chrysler's closure, and to impose temporary import restrictions until other British producers could meet the former Chrysler share of the British market.
THE SECRETARY OF STATE FOR SCOTLAND said that he would regard it as indefensible if the Government did not explore all the options that were open to them. The economic consequences of closure would be extremely grave: the balance of payments costs would be £130-£200 million, while the effect on unemployment would be very serious, particularly in Scotland, bearing in mind the other employment prospects there. The political consequences would also be of the utmost gravity. Closure of the only section of the motorcar industry in Scotland would be fatal for the Government's policy for devolution which involved economic and industry matters continuing to be decided from Westminster. The conditions contained in Chrysler's letter setting out the basis on which they would make a financial contribution to the continued operation of their United Kingdom business were not incompatible with the scheme in his memorandum. Having received this reply it was imperative that the Government followed it up with detailed negotiations. If they did not their position would be indefensible. The analysis in his paper suggested that the cost to the Government of a scheme based on the Chrysler proposal would be £71 million but the balance of payments gains and the saving of redundancy payments and unemployment benefit needed to be set against this cost. Nor did he accept that the future prospects for a reorganised company would be as poor as some analyses had suggested. The report by the Central Policy Review Staff had not been discussed by the Cabinet or accepted as the Government's view. Recent reports suggested that the market prospects for 1976 were already better than suggested in forecasts made only a few months ago. A closure decision of such momentous consequence should not be taken on the basis of such uncertain projections. He agreed that a scheme for concentration at Linwood alone was not viable and he would not argue for acceptance in advance for whatever terms might be put forward by Chrysler in negotiation. He did however believe it imperative that negotiations should be carried forward to see what could be achieved.

In discussion there was general agreement that it would be wise, even if only for tactical reasons, to seek further negotiations with the Chrysler Corporation on the basis of their letter. The latest Chrysler approach might prove to be no more than a propaganda exercise since the limited basis on which they appeared willing to contribute finance seemed incompatible with whole-hearted support for a continuing operation. Nevertheless the political and social consequences of a closure of this magnitude were so severe that every effort should be made to explore all reasonable alternatives.

In this context it was argued that the piecemeal closure of sections of the country's industrial base would eventually result in irrecoverable damage to the national economy. On the other hand it was pointed out that the amount of finance available for supporting British
industry was limited and that help given to totally unprofitable operations like Chrysler would damage the prospects of helping more promising parts of British industry. The country was in a mood to accept severe measures, as the response to recent Government decisions on health charges and rate support grant had shown.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet were agreed that no final decision could be taken without further negotiations with the Chrysler Corporation to elucidate the meaning of their latest letter. It was doubtful whether such negotiations would prove fruitful. Nevertheless the Chrysler Corporation's offer to participate in future operations gave them at least a strong presentational advantage and it would be necessary to explore how sincere this offer really was. The Secretary of State for Industry should therefore pursue negotiations with the Chairman of Chrysler Corporation on the basis that while the Corporation were not willing to finance continuing losses neither were the Government. Equally so the Chrysler Corporation had said they were prepared to put some new money into the business: so was the Government. We need not necessarily insist on more than a 20 per cent Chrysler shareholding but there must be an equitable sharing of the risks and any losses arising from continuing operations. The negotiations should therefore explore what future plans could be viable, and should review what provision could be made for new models and how the future financial burden might be shared. To facilitate these negotiations and to demonstrate their good faith Chrysler should be asked to extend by one month their previous deadline for the start of the rundown of their United Kingdom company. If they would not extend the deadline it would be clear that their offer was in bad faith and that they were not interested in serious negotiations. The Secretary of State should report the results of these further negotiations to the Cabinet as soon as possible.

The Cabinet -

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

2. Invited the Secretary of State for Industry to resume negotiations with the Chrysler Corporation on the basis indicated in the Prime Minister's summing up of their discussion.
THE SECRETARY OF STATE FOR EMPLOYMENT said that his memorandum outlined a scheme for supplementary redundancy payments which had been drawn up on the assumption of a complete closure by Chrysler (UK) Ltd.

It envisaged that a scheme might involve expenditure of £30 million and that the details of the arrangements should be discussed with the unions concerned. It would be confined to direct employees of Chrysler (UK) Ltd and would not cover those who were made redundant by components suppliers as a consequence of Chrysler's closure.

In a brief discussion it was suggested that firm decisions should not be taken on the amount to be paid out under the scheme if it were to be introduced until decisions had been reached on the way the money was to be spent.

THE PRIME MINISTER, summing up a brief discussion, said that no decisions would be taken on this scheme pending the outcome of the further negotiations with the Chrysler Corporation.

The Cabinet -

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

THE SECRETARY OF STATE FOR TRADE said that he proposed that in the event of a complete or substantial closure by Chrysler (UK) Ltd quota restrictions should be imposed on motorcar imports from all sources. The longer the restrictions could be maintained the more effective the scheme would be in view of the fact that there were substantial stocks of imported cars already in the country and very low stocks of home-produced cars. He proposed that quotas should be calculated in relation to a base period of spring 1974 to spring 1975 because the industry had been in general difficulties since then. The annual quota would be split into two six-month periods with only 40 per cent of the quota being allowed to be imported in the first half-year. The restrictions would cover cars of a size up to 2200cc and would not include commercial vehicles. Informal approaches had already been made to the responsible European Commissioner, M Gundelach. The latter had indicated that he would support the Government's proposal if it were put formally to the Commission, but would press for some alterations to be made to it. These would be the limitation of the duration to less than two years, perhaps to one year to be followed by a review, and a change in the base period. This latter change would increase the quota by 20,000 cars per annum.
In a brief discussion there was general agreement that it would be inadvisable to seek the formal agreement of the European Commission to the imposition of import restrictions before Chrysler's position had been further clarified. Discussion on a contingent basis might be less favourable to the Government's interest than delay until it was clear whether the closure of Chrysler would go ahead, and might have a prejudicial effect on the Commission's consideration of other proposals for import restrictions which might be put forward. There was however support for the view that if in the end restrictions were to be imposed an initial period of one year with provision for a review thereafter would be sufficiently long to justify introduction of the scheme.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet were agreed that no further action should be taken to secure the agreement of the Commission of the European Economic Community to the introduction of import restrictions on motorcars until the willingness of the Chrysler Corporation to provide continuing financial support for the maintenance of part of the operations of Chrysler (UK) Ltd had been clarified.

The Cabinet -

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

Cabinet Office

26 November 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 27 NOVEMBER 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
(Items 1 and 2)

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 Eric Varley MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Defence

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

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 Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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 Merlyn Rees MP
Secretary of State for Northern Ireland

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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 3)

The Rt Hon Edmund Dell MP
Paymaster General (Item 3)

The Rt Hon David Ennals MP
Minister of State for Foreign and
Commonwealth Affairs (Items 3 and 4)

The Rt Hon Bruce Millan MP
Minister of State, Scottish Office
(Items 2-4)

SECRETARIAT

Sir John Hunt
Mr P Benner (Items 1 and 2)
Mr J A Hamilton (Items 3 and 4)
Mr J A Marshall (Item 4)
Mr C J Farrow (Item 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 Cabinet had before them a memorandum by the Lord President of the Council about the separation of private practice from National Health Service (NHS) hospitals (C(75) 132).

THE LORD PRESIDENT OF THE COUNCIL said that at a meeting on 20 November the Social Services Committee had considered and agreed proposals by the Secretary of State for Social Services for legislation on the separation of private practice from NHS hospitals. The Secretary of State was caught between two fires: on the one hand there were the doctors, who were in a highly militant mood, and on the other there were the NHS trade unions, amongst whose members feeling against pay beds was running high. It was therefore proposed that a short Bill should be introduced and enacted as soon as possible. Its main objectives would be to establish beyond doubt the power of the Secretary of State to phase out pay beds from NHS hospitals; to fix a timetable for phasing out; to reaffirm the right of an NHS consultant to engage in private practice outside the NHS; and, as a holding measure, to confer a simple control power under which anyone who wished to provide a private hospital of more than 75 beds would have to obtain a licence from the Secretary of State. This latter provision would serve to protect the NHS until discussions were complete on the much more thorough and flexible controls outlined in the consultative document which had recently been issued. The Bill was at present in the priority reserve category and The Queen's Speech had merely said that it would be introduced in the course of the Session. The position had however changed since the Cabinet had last discussed the matter and urgent action now seemed necessary. The provision most likely to cause difficulty was the proposed control power. On the control of the private sector The Queen's Speech had merely said that consultations would continue, and early legislation on the matter might therefore lead to charges of bad faith. The Secretary of State for Social Services proposed, however, to offer full consultations with the medical profession before legislation was either announced or introduced.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the NHS consultants had now decided, as from the following Monday, to treat only emergency cases until the whole matter of pay beds and private practice was referred to the Royal Commission on the NHS. There was an immediate danger that the NHS trade unions, whose leaders were having difficulty in restraining their rank and file, might immediately "black" all pay beds. More hopeful features were that
some of the doctors' leaders had indicated publicly that the profession might regard a new situation as having been created once Parliament had legislated on pay beds; and that the Opposition in the House of Commons were taking a responsible line. If the situation was to be kept under control, it was in her view necessary to legislate at once on the lines described in the Lord President's memorandum. Legislation providing for the early phasing out of pay beds was likely to lead to a rush of proposals for developments in the private sector - her Department already knew of 37 such proposals, involving some 2,500 beds; and some of these - for instance a plan for a 500-bed private hospital in Bristol - could be extremely damaging to the NHS. At present, factors connected with the planning of health services were not amongst those which it was statutorily permissible to take into account in considering applications for planning permission. There was not time to implement the detailed and sophisticated controls which the consultative document proposed should in the longer term apply to the private sector and on which thorough consultations were essential. She therefore proposed, entirely as a holding operation, that a simple licensing procedure should be applied to developments of more than 75 beds; and it was to be hoped that the British Medical Association (BMA) would take up the offer she intended to make of consultations before the legislation was announced or introduced.

In discussion, agreement was expressed with the Social Services Secretary's analysis of the situation and with the broad objectives she had in mind. There was in particular acceptance of the need to ensure that developments in the private sector did not harm the NHS during the period before long-term arrangements could be made for regulating the private sector following completion of the discussions of the proposals in the consultative document. It was however argued that the control power now proposed, even if only temporary, was extremely far reaching and would be regarded by the doctors as evincing an intention to eliminate the private sector altogether - all the more so because it would take some years to replace the 4,000 pay beds which it was intended to phase out of the NHS within a quite short period. It would therefore be preferable to explore the possibility of achieving an agreed solution with the medical profession without threatening them with immediate legislation to control the private sector. Similarly it would be wise to consult the profession about the timetable for phasing out pay beds, rather than to present them with cut-and-dried legislative proposals. The situation was one where rational discussion in a calm atmosphere might be productive; moreover, it could not be overlooked that there was scope for flexibility which might help in securing agreement - for example, if satisfactory arrangements could be made for regulating the private sector, it might be possible
to agree for certain NHS facilities to be made available on payment for private use when not needed by NHS patients. A settlement commanding the widest possible amount of agreement was particularly desirable because of the danger that in its absence a future Conservative Government would relax whatever long-term controls might be applied to the private sector and thus allow it to expand to an extent which would do irreparable harm to the NHS.

THE PRIME MINISTER, summing up the discussion, said that it had not proved necessary at this stage for the Cabinet to reach final decisions on the detailed proposals contained in the Lord President's memorandum. They had however agreed that there must be thorough consultations with the medical profession before there could be any question of introducing legislation containing provisions for phasing out pay beds or controlling the private sector. These consultations should take place on the basis that the Government were firmly committed both to the phasing out of pay beds and to preserving a healthy private sector; that the relationship between the private sector and the NHS was a matter which the Royal Commission was free to examine and report on; that the Government would continue with detailed and thorough consultations on the long term arrangements needed for regulating the private sector and ensuring that it did not cause unacceptable damage to the NHS. The Cabinet agreed that the outcome of these consultations or of the Royal Commission's deliberations could not be pre-empted by decisions on applications for planning permission for new private hospitals, in the consideration of which factors relating to the planning of health services could not at present enter. The Secretary of State must therefore be in a position if necessary to say that short term statutory powers of control would have to be taken. Given a favourable atmosphere for these discussions and given reasonable flexibility on both sides, it might be possible to achieve a satisfactory outcome. The discussions would be handled with the help of a small Ministerial group which he himself would chair; and it was essential that strict confidentiality should be preserved as to the Government's negotiating position. The outcome would be reported to the Cabinet, and no legislation would be introduced without further discussion by the Cabinet.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion.
3. The Cabinet resumed its consideration of Chrysler. Their discussion and the conclusions reached are recorded separately.
4. The Cabinet had before them a memorandum by the Secretary of State for Industry (C(75) 133) and a memorandum by the Secretary of State for Trade (C(75) 135) about the possible imposition of controls upon imports of colour television tubes.

THE SECRETARY OF STATE FOR INDUSTRY said that the question of applying selective import controls to certain products was discussed at the Ministerial Committee on Economic Strategy on 21 November when the balance of opinion was against imposing controls on imports of colour television tubes pending clarification of the future of the Thorn plant at Skelmersdale and the possibility of a restructuring of the television tube industry in the United Kingdom. In his view this delay was mistaken. The Chancellor of the Exchequer would be announcing the decision to impose other import controls in the first half of December, and inevitably such an announcement would create some adverse international reaction. It was hardly likely that the Government would wish to risk a repetition of that by later deciding to announce controls on colour television tubes. He acknowledged that the Secretary of State for Trade had done well in the arrangement on prices which he had successfully agreed with the Japanese; but that arrangement did not overcome the present difficulties facing Skelmersdale. The Ministerial Committee on Industrial Development had agreed to expenditure of up to just over £1 million to buy time at Skelmersdale while the possibility of a restructuring of the industry which would save the plant was explored. A report he had received from Phillips, the other British tube manufacturer, was not optimistic, but he himself still thought restructuring was a possibility. In his view it was unthinkable that the Government should announce a package of import controls which would exclude television tubes at a time when the industry was facing such difficulties and the Government was considering ways of saving it. The trades unions concerned would certainly not understand such an action, and he reminded Cabinet that a Motion had just appeared on the House of Commons Order Paper, signed by 54 Labour Members, on unemployment in the television industry and calling specifically for import restrictions on tubes.

THE SECRETARY OF STATE FOR TRADE said that there was no difference between him and the Secretary of State for Industry on the objective of a viable and continuing television tube industry in this country. The only question was the way in which this should be achieved. He reminded Cabinet that a great many of the tubes imported into the United Kingdom were of a size and type not manufactured here, so that, at least for the present, such imports must continue. The 22 inch tube was the most popular size, but British capacity for this was in excess of 2½ million tubes a year, while production of television sets was only running at 1.2 million
per year. This problem of over-capacity in the most popular tube size was one which would remain whether import controls were imposed or not. Restructuring would not be easy, since the Mullard system (Mullard being the Phillips' subsidiary) was technically very different from that of Thorn and it would take an appreciable amount of time to make the changes necessary to integrate the two. When he had visited Japan earlier in the year, the manufacturers in this country had said that the most helpful thing the Government could do would be to get an increase in the price of Japanese exports; and this had been achieved, the Japanese now quoting £38 - the price at which the United Kingdom manufacturers could compete - as against the £31-£32 they were charging previously. He pointed out that if import controls were now imposed, the Japanese would certainly break this price agreement; and other voluntary agreements which he had reached with them - on ball bearings, on pottery, and perhaps also on cars which was still under negotiation - would be put seriously at risk. The British television set manufacturers, who employed ten times as many people as the television tube industry, would be put in a very serious position, since they would be compelled to purchase British tubes at a higher price that would make their exports less competitive. Furthermore, in his view there was no prospect of making out a case under Article XIX of the General Agreement on Tariffs and Trade, since there had been no increase in imports of tubes.

In discussion it was noted that Phillips had plans to extend the range of their present production so as to cover the bulk of the tube sizes now imported, and it would be helpful in securing the implementation of these plans if they could be backed up by import control covering the period of reorganisation. On the other hand, it was pointed out that the Government's attitude as expressed at Rambouillet was that selective import controls might be imposed, not on protectionist grounds, but simply to help temporarily an industry which in normal times was viable but was likely to collapse during the recession because of competitive imports. This was not quite the present position with television tubes. Nevertheless, there was obvious advantage in facilitating a reorganisation of the industry so as to make it viable and retain Skelmersdale. One possibility would be to seek an arrangement with the Japanese on television tubes comparable with that now being sought on cars. The Japanese could be told that the British Government wanted them to reduce their present exports to the United Kingdom of colour tubes to a lower level, and that if they did not do so the Government should have no option but to impose controls. It was unlikely, however, that this course would act rapidly enough to help at Skelmersdale, and it might therefore be necessary to offer more assistance to Thorn's to keep
the situation open. An approach of this kind would safeguard the other voluntary arrangements with the Japanese. It was, however, argued that, while a message to the Japanese was in draft pressing them strongly to avoid any increase in their exports to the United Kingdom of television tubes, it would be difficult to go further and seek a positive reduction, since other countries, notably the United States and Canada, would also be involved. Furthermore there was strong opposition from the set manufacturers to any restrictions on tube imports.

THE PRIME MINISTER, summing up the discussion, said that the balance of opinion in the Cabinet seemed to be that, taken on their own, the disadvantages of imposing import controls on colour television tubes appeared to outweigh the advantages. However, it was not possible to dissociate this question from that of import controls on cars; and if import controls were not imposed on the latter the political case for strengthening the import restraint package by imposing controls on television tubes would be stronger. The matter would therefore need to be re-examined in the context of the package as a whole.

The Cabinet -

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

Cabinet Office

27 November 1975
The Cabinet resumed their discussion.

THE SECRETARY OF STATE FOR INDUSTRY, said that with the Secretary of State and Minister of State for Scotland and the Paymaster General he had, the previous evening and that morning, renewed his discussions with the Chairman of the Chrysler Corporation. The meetings had concentrated on the scheme for the reorganisation and contraction of Chrysler (UK) Ltd which had originally been put forward by Chrysler. The scheme involved the preservation of 15,000 of the current 25,000 jobs at Chrysler (UK) Ltd including some 4,000 of the 6,000 jobs at Linwood. He had pressed the Corporation for their views on the viability of the scheme. Although in earlier correspondence they had described it as "making commercial and industrial good sense" they now described it as "politically viable but not economically viable". That was quite different. He himself had two very considerable doubts about the scheme. The first was that it involved a planned output of 93,000 cars per year; although this might rise to 140,000 it had to be set against the assessment in the report by the Central Policy Review Staff (CPRS) that a scale of 250,000 cars per year was the minimum figure for viability. The other major problem was that it involved the transfer of production of the Avenger car from the Midlands to Linwood. Even if the transfer were carried through without problems it would take 6 to 8 months. It was however to be expected that the workers who would in consequence be made redundant in the Midlands would do all in their power to resist this transfer. As the Cabinet had requested he had pressed Chrysler on whether they would be willing to share the risks and any losses arising from continuing operations. They were adamant that they would not agree to any continuing liability. They were prepared, however, to envisage two possible forms of contribution to this scheme. The first was that they should have a continuing shareholding of less than 20 per cent in the company, which would
continue to trade under the Chrysler name. In these circumstances the Chrysler Corporation would be prepared to write off the £20 million of loans which Chrysler (UK) Ltd already owed to them and would be prepared to invest £13 million of new money. This would, however, be the limit of their commitment and they would not be prepared to increase the amount if losses proved larger than had been estimated. An alternative arrangement was that they should have no continuing shareholding and that the company would cease to use the Chrysler name. In this case they would be prepared to put in £35 million of new money in addition to the loan write-off. The difference between the two situations arose from the fact that if they had a continuing shareholding and the United Kingdom company continued to use the Chrysler name they would not be able to write off past losses in the United Kingdom against profits in the United States. In either case they would be prepared to continue to provide management for the company and would enable it to use their world-wide distribution system. It was clear to him that these proposals needed to be further discussed with the Chrysler Corporation. He had asked them whether they would be willing to extend the deadline for the closure of Chrysler (UK) until the end of the year. This they were not willing to accept, but he believed that they would be prepared to wait until the middle of December. However they had made clear that the process of running down had already started. No new materials were being ordered for example. In consequence if the Government took over the company it would not be able to start up again until the middle of February.

He was not at all optimistic that a satisfactory outcome could be reached in these negotiations. In his view the object of Chrysler was to transfer all the responsibility for redundancies and for the future of the company onto the Government by contributing an amount which they would otherwise have to use for redundancy payments. Nevertheless he thought it was essential to have further talks with the Corporation. He would bring a further detailed paper to the Cabinet in the following week.

THE MINISTER OF STATE, SCOTTISH OFFICE, said that in his view the negotiations had made substantial progress. The viability of the reorganised company was the crucial question. Clearly there could be no guarantee of this but he thought that there was a reasonable prospect. The cost and profit estimates produced by Chrysler were based on detailed calculations and Chrysler did not accept the views of the CPRS on the dependence of viability on production at a scale of 250,000 cars per year. Important matters remained to be negotiated. These would include the details of the arrangements that Chrysler would make for future management and future distribution; these would be crucial, at least in the shorter
term. It was also likely that in negotiation some increase could be secured in the sum which Chrysler would be willing to invest. It would, moreover, be essential to secure the co-operation of the trades unions concerned, without which the scheme could not go ahead. Their support would have to be sought on the basis that the scheme provided a means of saving 15,000 jobs and that without it all the 25,000 jobs at Chrysler would be lost.

In discussion there was general agreement negotiations should be continued with the Chrysler Corporation. But it was argued strongly that there was very little chance of an acceptable solution on the lines envisaged. It was most unlikely that the reorganised company would be economically viable and any support for it was likely to be damaging to British Leyland and to Ford and Vauxhall. The strategic consequences for the whole industry must therefore be kept in mind. If cars were not marketed under the Chrysler name they were unlikely to sell well and it was unlikely that Chrysler would have a strong incentive to press them in competition with cars produced by other companies in their group. It would be necessary to examine with great care the assumptions which underlay the forecasts of capital requirements for the reorganised company, particularly about the share of the British market which it might command and the extent of overseas sales. It would be unsatisfactory to rely on figures produced by Chrysler and it should be a condition of further negotiations that independent estimates should be made by consultants. These might also cover the contingent liabilities, such as for redundancy payments and creditors, which the Government would assume if they took over the company. It also had to be recognised that even if national trades union leaders expressed their support for the reorganisation scheme they could not ensure that all the workers concerned would co-operate. It was inconceivable that redundant workers in the Midlands would stand by inactive while plant was transferred to Linwood; this factor was of the greatest importance to any final decision. If the Government took over the company they would assume all the political, economic and social responsibility for future decisions about it and would incur all the odium for any closures which took place thereafter. The worst outcome of all would be if the Government assumed responsibility and the company collapsed within a matter of months because the workers would not allow the reorganisation to proceed.

On the other hand it was argued that it was imperative to secure the continued operation of the Linwood plant. Without this the Government's devolution proposals would fail, with incalculable consequences for the future. In the light of the very substantial contributions which the Chrysler Corporation were ready to make the Government's position would be indefensible if they did not
secure the continued operation of Chrysler (UK) Ltd. Even if the reorganised company did not have a good long term future the scheme would permit a phased rundown which was greatly preferable to a redundancy scheme. Any further contraction could be planned carefully; for example the Iranian contract could be carried on. If the Government were to avoid the odium for the consequences which were likely to be associated with any decision there should be consultation with the trades union movement over the range of options which was open before any decision was taken.

In further discussion there was general agreement that in addition to pursuing negotiations on the possible takeover of Chrysler (UK) Ltd consideration should also be given to alternative means of securing the continued operation of their facilities, particularly those at Linwood. Rather than take over all the liabilities of Chrysler (UK) Ltd it might be preferable to allow Chrysler to run down the company and to provide British Leyland with additional funds to expand their output so as to offer employment at some of the plants which Chrysler might close. In particular there was an unsatisfied demand overseas for Land Rovers and the Government might pay for an additional production line for these at Linwood. Local authorities were having to import spare parts for buses and British Leyland might be able to increase output of these by using the Luton plant. Wide ranging consideration should therefore be given to the possible ways in which the Government could continue production by the motor industry at Linwood and at other Chrysler plants. It was further argued that in the event of substantial Government support for Chrysler (UK) Ltd it would not be right to proceed with the proposals for a supplementary redundancy payments scheme nor with the proposals for import restrictions on motor cars. On the other hand it was pointed out that the high level of imports into Britain and the reduction in output by Chrysler (UK) Ltd which was in any case inevitable would justify the introduction of import restrictions even if the Government supported a substantial reorganisation.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Secretary of State for Industry should continue his negotiations with the Chrysler Corporation in good faith, even if with some scepticism as to their chances of success, since no decision had yet been taken on whether an arrangement of the kind discussed could be accepted. He should say that a necessary condition was that the Government should forthwith put in consultants to assess the validity of the cost estimates of the scheme proposed by the Chrysler Corporation and also to assess the magnitude of the contingent liabilities which the Government would assume if it took over ownership of Chrysler (UK) Ltd. He could indicate to Chryslers that the Government would expect to
give them a decision in principle in the course of the following week. While these negotiations were continuing it was important that the public should not be led to expect a rescue of Chrysler (UK) Ltd: this could be misleading and would in any case be harmful to our negotiating position. The Chrysler Corporation should say no more than that negotiations were continuing, and no members of the Government other than himself and the Secretary of State for Industry should comment. While these further discussions took place with Chrysler, consideration should also be given to whether the money which the Government would have to put into a scheme of this kind would be better spent if Chrysler's were allowed to collapse and if British Leyland were helped to provide continuing employment at Linwood. There was for example an accepted need for increased capacity for the production of Land Rovers and Range Rovers and British Leyland might be enabled to undertake this at Linwood. British Leyland were also unable to meet current demand for spare parts for buses and they might be able to increase their output by taking over Chrysler's facilities at Luton. In any case an assessment should be made of the impact on British Leyland of all the options which were being considered. A full scenario should also be prepared of all the consequences which would follow a decision not to prevent the closure of Chrysler (UK) Ltd. This should cover the financial implications for the Chrysler Corporation and for the Government, and also physical consequences such as the rate of redundancies in different localities. It was clear that the reorganisation scheme proposed by Chrysler, which involved the movement of Avenger production from Coventry to Linwood, would raise major problems of industrial relations. The views of leading trades union officials should therefore be sought on the options open to the Government assuming that Chrysler (UK) Ltd could not be maintained in its present form. In particular they should be given an opportunity to comment on the alternatives of preserving some part of Chrysler (UK) Ltd which implied the transfer of work from the Midlands to Linwood, or assisting British Leyland to increase their output and in particular to maintain employment at Linwood.

The Cabinet -

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

2. Invited the Secretary of State for Industry to resume negotiations with the Chrysler Corporation on the basis indicated in the Prime Minister's summing up.
3. Invited the Secretary of State for Industry to assess the impact on British Leyland of the options open to the Government and to examine with British Leyland what steps that company could take to operate some of the facilities of Chrysler (UK) Ltd., in particular the Linwood plant, if Chrysler (UK) were allowed to collapse.

4. Invited the Secretary of State for Industry, in consultation with the Secretary of State for Employment, to obtain the views of the appropriate trades union leaders on the possible courses open to the Government.

5. Invited the Secretary of State for Industry in consultation with the Secretaries of State for Employment and Scotland to prepare a full scenario of the consequences which would follow a decision to allow Chrysler (UK) Ltd to collapse.

6. Invited the Secretary of State for Industry to make a further report to the Cabinet in the following week to enable a decision in principle to be made.

Cabinet Office

27 November 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 4 DECEMBER 1975
at 10.15 am

PRESENT

The Rt Hon Harold Wilson MP
Prime Minister

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

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

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

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

The Rt Hon Lord Shepherd
Lord Privy Seal
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 Reginald Prentice MP  
Minister for Overseas Development

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)

The Rt Hon Edmund Dell MP  
Paymaster General (Item 4)

SECRETARIAT

Sir John Hunt  
Mr G R Denman (Item 2)  
Mr F Benner (Item 1)  
Mr J A Hamilton (Items 3 and 4)  
Mr T F Brenchley (Item 2)  
Mr J A Marshall (Item 3)  
Mr R P S Hughes (Items 1 and 2)  
Mr C J Farrow (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. In connection with the debate on 8 December about the effects of Government policy on offshore oil, it would be helpful if the current Ministerial discussions about the appointment of the members of the British National Oil Corporation could be completed in time for an announcement to be made during or just before the debate.

It was reported that increasing pressure was being brought to bear on Ministers and backbench Members of Parliament by trade unions other than those representing the dock workers which would be affected by the Dock Work Regulation Bill, which was due to receive its Second Reading on 10 December. It might be worth considering whether any concessions could be offered to them at a later stage; but the most pressing need was to do everything possible during the Second Reading debate to allay their immediate concern. The fact was that there was an unavoidable clash of interests between the trade unions concerned; the aim of the Bill was to mitigate it, but it could not be removed altogether. There had been full consultations with the trade unions not primarily concerned with the interests of dock workers, and further consultations had been offered.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet recognised that there was a clash of interests which could not be wholly removed. It was however important that the Secretary of State for Employment should, during the Second Reading debate, do all he could to reassure the trade unions not primarily concerned with dock workers and stress that there would be continuing consultations with them.

The Cabinet -

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

THE HOME SECRETARY said that it was important that there should be a good attendance at the debate on 11 December on a Private Member's Motion for the restoration of capital punishment for terrorist offences causing death. There would be a free vote, and if the House of Commons did not produce a substantial majority against capital punishment pressure in the country for it to be restored, at any rate in relation to terrorist offences, might become irresistible. The policy of releasing all the remaining detainees in Northern Ireland before Christmas presented some problems for the handling of the debate. The number of detainees affected was 46 and the Secretary of State for Northern Ireland would like to release them all by the end of the following week, so that the whole operation could be completed well
before Christmas. But this would be a substantial increase in the normal rate of releases and supporters of capital punishment might argue that it was a policy of appeasement. It would be all the more embarrassing if one of the released detainees committed a terrorist act before the debate took place. It would therefore be worthwhile considering whether a preferable course might not be to release only some 20 detainees during the following week and the remainder after the debate and shortly before Christmas.

THE SECRETARY OF STATE FOR NORTHERN IRELAND said that in his view the benefits so far as Northern Ireland was concerned of releasing all the detainees as quickly as possible outweighed the possible difficulties which might arise in relation to the debate. Opinion in Northern Ireland now generally supported his policy of bringing detention to an end and dealing with terrorists through the courts. His contacts with politicians and with the police and the army showed substantial support for his view that it would now be preferable to end detention as quickly as possible. Moreover the Provisional Irish Republican Army was already in disarray, and the complete end of detention would remove one of the most important and most popular planks in their programme; furthermore it would deny them any excuse for staging some act of violence on the ground that the Government did not in fact intend to honour its promise to release all detainees.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet recognised that there were conflicting considerations which were nicely balanced. On balance they agreed that the preferable course would be for the Secretary of State for Northern Ireland to proceed as planned with the immediate release of all the remaining 46 detainees and that any risks this might involve in relation to the debate should be accepted. Every effort should be made to secure a good attendance at the debate, since it was important that the Motion should be rejected by as large a majority as possible.

The Cabinet -

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

It was argued that it was important that time should be found for a debate on unemployment before the House rose for the Christmas Recess. If this were not done there was some danger that Government backbench supporters would seek an emergency debate, which might well result in the Government's defeat. It would have to be accepted that the House of Commons might in consequence have to sit during Christmas week rather than rise on 19 December as had been hoped.
THE PRIME MINISTER, summing up a short discussion, said that the Cabinet agreed that there should be an announcement during the business statement later that day that there would be a debate on unemployment before the Recess, probably in the week beginning 15 December. It should take place on the basis of a Motion seeking approval to the package of measures to counter unemployment, the precise content of which Ministers would be settling shortly. The debate could also deal with Chrysler, and if appropriate, with import restrictions. As a consequence of finding time for the debate the House of Commons would have to sit at the beginning of Christmas week; but the business taken should be as uncontroversial as possible.

The Cabinet -

3. Took note, with approval of the Prime Minister's summing up of their discussion and invited the Parliamentary Secretary, Treasury to be guided accordingly.
THE FOREIGN AND COMMONWEALTH SECRETARY said that the decision of the United Nations Security Council to renew the mandate for the United Nations Disengagement Observer Force on the Golan Heights had averted a grave situation which might have involved a real possibility of a new Middle East war. The Soviet Union had undoubtedly scored a success with regard to the possibility of participation by the representatives of the Palestine Liberation Organisation (PLO) in the Security Council debate on the Middle East to be held in January. This question of participation would be re-opened in January at the beginning of the debate, but since it was a procedural matter no veto could be cast. The Israelis, who were bitterly disappointed with this development, had said that they would not co-operate in the January debate, but he had offered his advice that they might be wise to reconsider the danger of leaving the field clear for their adversaries. He personally considered that the Israeli Government would eventually have to reconcile themselves to dealing with the PLO in some manner; he thought that they should be turning their attention to exacting in return the price of recognition of the statehood of Israel by the PLO. He had arranged to discuss the question with the United States Secretary of State, Dr Kissinger, when they met next week at the North Atlantic Treaty Organisation Council meeting. Meanwhile, it was important that nothing should be done to harden attitudes on either side and clearly the recent Israeli bombing of targets in the Lebanon, in which some 70 people had been killed, had been a most unfortunate development.

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had been very impressed by his visit to Saudi Arabia during the course of his recent tour of the Arabian Peninsula. British exports to Saudi Arabia this year would be of the order of £200 million and there was no reason why this figure could not be doubled. He had heard from the Saudis the usual complaints against British businessmen and for his part he had done his best to reassure them about the reliability of sterling and about the underlying strength of our economic position, as well as more generally about the Government's determination to remain in command of events. He had formed the strong impression that Saudi Arabia, although its regime was in many ways totalitarian, had much better prospects of stability than many of the neighbouring Governments.

The Cabinet -

1. Took note of the statements by the Foreign and Commonwealth Secretary.
THE FOREIGN AND COMMONWEALTH SECRETARY reported on the meeting of the European Council which the Prime Minister and he had attended in Rome on 1 and 2 December. There had been no communique but a number of agreements had been come to in the form of working documents. On the Community Budget and financial control the discussion which the Prime Minister had had with the Federal German Chancellor in July and the work which the Prime Minister had since put into elaborating our proposals had paid a substantial dividend. There had been a general welcome at the European Council for our proposals which we would now publish as a White Paper and agreement in particular to pursue actively our proposal for a Committee of the European Assembly on the lines of the House of Commons' Public Accounts Committee to watch over Community expenditure. On the basis of the discussion detailed proposals would be submitted by the Commission to the Council of Ministers.

On direct elections, seven countries had agreed that elections to the European Parliament should take place on a single date in May or June 1978. It had been agreed that any country which at that date was unable to hold direct elections should be allowed to appoint its representatives from among the elected members of its national Parliament. The Council had noted the Prime Minister's statement that further consultations would be necessary before the British Government could commit itself to final arrangements. Denmark had also reserved its position. Foreign Ministers had been instructed to take further their examination of the question and to submit a report to the next European Council in March. This would probably lead to considerable argument on the size of the European Assembly between the French, who wanted the number of seats to be proportional to the population of the Member States, and the Irish, who wanted to increase the share of the total seats held by the smaller countries.

On Passport Union the Council had agreed that a uniform passport might be issued as from 1978 and had asked the Council of Ministers (Foreign Affairs) to resolve all outstanding questions in this area including the difficult issues of the abolition of frontier controls and the harmonisation of conditions of entry.

M. Tindemans had reported very briefly on the progress of his report on European Union but there had been no substantive discussion. A United Kingdom proposal for a meeting of Ministers of the Interior to discuss common problems with particular reference to law and order had been agreed. The President of the French Republic had also suggested that this meeting should discuss the associated question of the right of asylum.

On the Conference on International Economic Co-operation there had been long and fierce discussion. The Prime Minister had fought very hard for our position and, while we had not gained everything we had publicly aimed for, there had been some significant practical gains. The French had agreed to the principle of a Minimum Support Price (MSP) and emergency sharing arrangements for oil although the latter point was not for
publication, and thus had come into line in everything but name with the International Energy Agency which they had earlier refused to join. In so far as representation of the United Kingdom was concerned it had been agreed that the Community spokesmen should be the President of the Council and the Commission, but that the President of the Community Delegation would be able to invite two countries, the United Kingdom and Luxembourg (as the country due to succeed to the Presidency at the end of the year) to "present additional statements" providing that they did not actually contradict the Community mandate. But, of course, any Community mandate required unanimity and we would only agree to one which fully took account of our own interests. So, both at the Ministerial Conference in December which he would attend and in the various Commissions, the United Kingdom would be able to put its own point of view. This arrangement was not as satisfactory as the separate seat for which we had pressed. But in reality the gains of substance we had made in securing French agreement to MSP and the emergency sharing arrangements and the separate voice we had gained for the United Kingdom represented a good compromise. We could not have obtained more and what we had secured had only been got by tough and sustained negotiation on the part of the Prime Minister.

THE PRIME MINISTER said that we had in fact secured the substance of what we had set out to get. Not only had the French agreed to the principle of an MSP and emergency oil sharing but we had secured the right to state our case. The Press reports of a row between himself and the Federal German Chancellor had been entirely unfounded. Indeed, Herr Schmidt had been helpful throughout. After the compromise had been reached President Giscard had said that the result had shown the value of the European Council and that the Community had been strengthened by the compromise. And an editorial in today's Le Monde had pointed out that, as a result of the Prime Minister's tactics, Community energy policy had made more progress in a few hours than since the birth of the Community.

The Prime Minister added that he had been asked at the lunch attended only by Heads of Government about our intentions on import controls. He had said that we were still considering our position. In the case of cars a decision would depend on the fate of the Chrysler operations in Great Britain. President Ortoli of the Commission had been unhelpful and the other Heads of Government had said that import restraints in the United Kingdom on cars would present difficulty. Action on our part on textiles and footwear particularly in so far as imports from low cost producers were concerned, would cause much less difficulty as would action on television tubes providing that this was limited to types not supplied by the European market.
In discussion it was argued that as represented in the media the decision of the European Council on passports, in particular the proposal that a Community passport should have the words "European Community" at the top, was likely to arouse nationalist reactions in this country. Moreover, the practical utility of a European passport was open to question. On the other hand it was pointed out that the Prime Minister had made it clear at the European Council that we would not wish to introduce the new passport before the new nationality legislation which had been projected had come into force. And a whole range of technical issues which remained to be resolved would need to be studied further by the Council of Ministers.

The Cabinet -

2. Took note, with approval, of the statements by the Prime Minister and the Foreign and Commonwealth Secretary.
3. The Cabinet had before them a memorandum by the Chancellor of the Exchequer and the Secretary of State for Social Services (C(75) 138) about the earnings rule which governed the amount a retirement pensioner might earn before starting to lose benefit.

THE CHANCELLOR OF THE EXCHEQUER said that in the previous Session of Parliament, an amendment to the uprating Bill had been forced upon the Government; the amendment raised the earnings rule limit from £13 a week to £20 a week from April 1975, to £35 from April 1976 and £50 from April 1977. The expenditure this entailed was not of high priority in the social security programme and the Ministerial Committee on Economic Policy had been unanimous in the view that a short Bill should be introduced to substitute £24 (or if necessary £26) for the £35 and thereafter allow the limit to move in line with the movement of earnings in the country at large. To make the change in the April 1976 figure it was essential to get a Second Reading of the Bill before Christmas and Royal Assent before 19 February. If this were impossible, and an amending Bill could only be effective from April 1977, the savings to be had in later years would be greatly reduced and would provide much less justification for the Bill. There were two major problems: could the Bill be fitted into the timetable, and could the Government carry it in the House? On the first, the position might be easier now that Cabinet had decided that the House would not adjourn until Tuesday 23 December. On the second he thought there was a good chance of carrying the Bill since one increase in the earnings rule was already effective as a result of the amendment, and there was now a much better general understanding of the need to contain public expenditure. It would be extremely difficult for the official Opposition to oppose a move which reduced public expenditure, and even if they did so some of their own supporters might well not support them. It could be made clear that if this expenditure were not cut some other expenditure, perhaps of higher social priority, would have to suffer.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the situation on public expenditure in the medium term made it essential to try to obtain these savings. In her view however it would be extremely difficult to get an amending Bill through the House unless the Government were prepared to say that the £50 million which would be saved in 1976-77 would be switched to some other socially desirable purpose. She had proposed to the Ministerial Committee on Economic Policy that a fuel bonus of £10 should be paid in February. This would have cost just over £100 million, and it had been rejected by the Committee. She would be prepared to cut the bonus to £5, which although small would be better than nothing. On this basis she would be willing to talk to the dissident backbenchers to seek to win their acquiescence in an amending Bill.
In discussion it was pointed out that there could be no prospect of giving such a Bill a Second Reading in the week beginning 8 December, the business for which would have to be announced that afternoon to the House. It would, however, be possible for the Bill to be approved by Legislation Committee on Tuesday 9 December and published on 10 December, with the possibility of a Second Reading before the Christmas adjournment; but the programme was already full and something else would have to give way. One possibility would be to delay by a week the Second Reading of the Armed Forces Bill and seek to persuade the Opposition to agree to complete its Second Reading in half a day, leaving the other half of the day available for a Bill on the earnings rule. It must be doubtful whether in fact the Opposition would agree to such an arrangement. Other items in the programme included the Consolidated Fund Bill, which was essential business, a Supply Day, which was in the Opposition's hands, the Rate Support Grant Order, which must be approved, and a day's debate on unemployment, which had been promised. On the question of carrying the Bill, it would obviously be necessary to speak in advance to the backbenchers who abstained or voted against the Government on the last occasion, and it was thought that at least some of them would be willing to go along with the Government's proposal. While it might be difficult for the Opposition to oppose it, the possibility that they might do so could not be ruled out. As regards the suggestion that the savings in 1976-77 might be switched to some other socially desirable purpose, it was strongly represented that it would be wrong to hypothecate savings in this way. Furthermore it would in any case be difficult to switch the saving in a way which did not involve some continuing commitment after the first year: the lesson of the Christmas bonus should not be forgotten. It would be tactically better to indicate that if these savings were not made some other item of desirable public expenditure would have to be cut.

THE PRIME MINISTER, summing up the discussion, said that the general view in Cabinet was that an attempt should be made to reverse the effect of the amendment on the earnings rule carried against the Government in the uprating Bill in the previous Session. As a first step the Secretary of State for Social Services and the Chief Whip should see the individual Labour Members who either voted against the Government or abstained on the last occasion, explain the Government's intentions to them and seek their acquiescence. In doing this it would be helpful to indicate that if the Government could not make this change other programmes of public expenditure would have to suffer. The Secretary of State for Social Services should put a Bill forward to Legislation Committee for approval; and the Chief Whip should consider what re-arrangement of the Parliamentary programme between now and Christmas could be made to accommodate a Second Reading of the Bill. It was noted that, to be effective in April 1976, the remaining stages of the Bill would need to be given priority after the Christmas Recess so as to ensure Royal Assent by 19 February.
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 and the Chief Whip to speak accordingly to the Labour backbenchers who voted against the Government or abstained on the previous occasion.

3. Invited the Secretary of State for Social Services to put an amending Bill to Legislation Committee.

4. Invited the Chief Whip to consider how such a Bill might be found a place in the Parliamentary programme to enable a Second Reading to be given before Christmas.

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

Cabinet Office

4 December 1975
The Cabinet considered memoranda by the Secretary of State for Industry (C(75) 139), the Secretary of State for Employment (C(75) 140 and 141), and the Secretary of State for Scotland (C(75) 142), on the future of Chrysler (UK) Ltd.

The Secretary of State for Industry said that at the last meeting of the Cabinet he had been invited to continue negotiations with the Chrysler Corporation on the scheme of support for the contraction of Chrysler (UK) Ltd, listed as scheme B in the annex to his memorandum C(75) 126, and to put in hand a number of studies. Two further meetings had been held with the Chairman of Chrysler Corporation. The first at Ministerial level, at which the Minister of State for Scotland and the Paymaster General together with officials from the Central Policy Review Staff (CPRS) and the Prime Minister’s office had been present, and the second at official level. The Chrysler Corporation had refused to make any increase in their financial contribution or to reveal the basis of their offer. With the agreement of the Minister of State for Scotland, Coopers & Lybrand had been engaged to form an independent assessment of the costs and prospective viability of scheme B. Their verdict was that it was not viable. The Secretary of State for Scotland had questioned whether this was the right conclusion to draw from their report but they had directly agreed to the use of these words. As the Cabinet had requested he had consulted the chairman of British Leyland (BL) on the question of whether they could expand their output by taking over some of the assets of Chrysler (UK) Ltd, and in particular whether they might use the Linwood facilities to expand production of Land Rovers. BL were strongly opposed to this; the only parts of Chrysler’s business in which they might have an interest would be the Iranian contract, certain test facilities and some of the dealerships. Both he and the Chairman of the National Enterprise Board considered that if scheme B were to be adopted this would be damaging to British Leyland, while Ford and General Motors had warned him that support for Chrysler could put the plans for their British companies in jeopardy.
The Cabinet had invited him, in consultation with the Secretary of State for Employment to seek the views of trades union leaders on the possible courses open to the Government. This he had done. The union officials had been appalled at the prospects which had to be faced. Although the merits of scheme B had been made clear to them they had spontaneously and uncompromisingly rejected it and said that it would be unacceptable to all Chrysler employees. They had commented that the contracted company envisaged in scheme B was too small to be viable and would collapse within two years and that the right course for the Government was to make no deal with the Chrysler Corporation but force them to take the odium for the closure. The Government should however take steps to provide alternative employment, should pay the wages of all Chrysler workers for six months while other plans were produced and should impose restrictions on the imports of cars. It was true that no Scottish trade unionists had taken part in the meeting but the composition of the trades union party had been left, rightly in his view, to the General Secretary of the Trades Union Congress. It was clear that, whatever the views of Scottish trades unionists, the representatives of the workers at Ryton were not prepared to agree to any arrangements which sacrificed jobs at their plant to bring employment to Scotland.

During the past four weeks he had examined many options for dealing with the Chrysler problem. If there were any prospect of restoring Chrysler (UK) Ltd to viability he would have put a proposal forward immediately, even if it involved large expenditure; but he had concluded with great reluctance that none of the options could be supported. He warned the Cabinet that the timing of a decision was not entirely in their hands: there was nothing to stop the Chairman of the Chrysler Corporation making an announcement at any time he wished.

THE SECRETARY OF STATE FOR EMPLOYMENT said that while he did not quarrel with the Secretary of State for Industry's report of their joint meeting with trades union officials he did not consider that its conclusion was so clear cut. The union representatives had all been angry about Chrysler's behaviour but he believed that if they were brought to recognise that scheme B was the only alternative to closure of the entire company they would not oppose it. On the central issue he came to a different conclusion from the Secretary of State for Industry, principally because of his concern for the consequences in Scotland. Closure of Linwood would make far worse a situation which was already bad and would put in jeopardy the whole of the Government's position in Scotland. The Government could not put all the blame for closure on Chrysler. It would inevitably become public knowledge that the Corporation had been prepared to make a large contribution towards the costs of saving a substantial number of jobs and that this proposal had been rejected by the Government. Closure would mean the loss of
55,000 jobs; the costs, £150 million in unemployment pay and loss of taxes and £30 million for a redundancy scheme, were higher than the highest estimate of the cost of proceeding with scheme B. While it might be that some further contraction would have to follow at additional cost the scheme would both permit a slower rundown and have a lower initial cost. There should be further investigation of whether it could go ahead without the physical transfer of machinery from the Midlands. The Government should not be pressed to an ill-considered decision by Chrysler. They should take at least a further week to consider what further improvements could be made to scheme B.

THE SECRETARY OF STATE FOR SCOTLAND said that a decision on this matter could not be taken without full regard to the political consequences which it would bring in Scotland. The Linwood plant had a symbolic importance. The Government's proposals for devolution had been widely criticised in Scotland on the grounds that insufficient economic powers were to be developed and because of the overriding powers to be retained at Westminster. They had been attacked not only by the Opposition but also by the Scottish Trades Union Congress. If the Government announced that it supported total closure of Chrysler (UK)Ltd when there was the alternative of preserving a part of it their position would be indefensible. He had noted that at the previous meeting of the Cabinet the Chrysler Corporation had been quoted as describing scheme B as "politically viable, but not economically viable". Mr Riccardo himself denied having said that and believed that it was both politically and economically viable. When a scheme had been considered by the Industrial Development Advisory Board (IDAB) they had divided equally on it, but this was on the assumption that if Chrysler made any contribution to its costs it would be no more than £10 million, now Chrysler were offering £35 million, and the waiving of debts of £20 million. The Government contribution would be £43 million: the cost to the Government of closure would be £180 million. The report by Coopers & Lybrand did not itself say that scheme B was not viable. As to the consultation with the trades unions he felt that it was unfair to have expected an immediate reaction. While the union leaders had opposed scheme B this view had to be read against their desire for nationalisation of the complete company as had happened with British Leyland. It would not be right to decide against scheme B because it might involve industrial disputes at one plant. If the closure went ahead there would be industrial trouble at every Chrysler plant and the situation in Scotland would be exacerbated by the knowledge that there had been a continuous outflow of job opportunities to England. He believed that the Government's approach had been over-influenced by the CPRS report. He believed that it was necessary to get closer to the Chrysler Corporation by further negotiations, to look further at the options, and to have further and wider talks with the trades union movement.
In discussion, it was argued that some parts of Chrysler (UK) Ltd’s business could be continued profitably - the contract with Iran which could have large consequences for the balance of payments, the commercial vehicle business, the Avenger engine and the spare parts business. It would be a mistake to allow these worthwhile activities to be closed because the company as a whole was unviable. The Chrysler Corporation would not themselves be proposing a contraction rather than a closure if the contracted company had no prospect of viability. The report by Coopers & Lybrand was not totally unfavourable to scheme B. On the other hand it was argued that if the Government supported one unviable company because of the fear of consequences of closure this would lead to a series of other such cases. A number of options had already been explored over the previous 4 weeks. Whatever might be the viability of scheme B, it was not feasible because it involved the movement of work from the Midlands to Scotland. If the closure went ahead now the odium for it would at least be shared with the Chrysler Corporation. If the Government took over the Company any subsequent closures would be its responsibility alone, yet if the contraction plans led to industrial disputes the plans might have to be abandoned within a month or at some time later when it was even more difficult for the Government. There would always be strong arguments against taking a painful decision but if it were not faced the Government’s industrial and economic policies would be discredited. The issue of devolution could not justify continual measures to appease the nationalist movements. There was already a strong backlash in England against the proposals on devolution and additional concessions would mean that the devolution legislation would not be passed.

In further discussion it was questioned whether the cost comparisons which had been quoted were correct. If scheme B were supported it would defer but not avert the costs of closure, these should therefore also be taken into account and the eventual cost would be in the region of £260 million. Furthermore if scheme B went ahead some two fifths of Chrysler’s employees would still become redundant and in consequence costs of £60 million, two fifths of the costs of complete closure, would still fall on the Government. It was also questioned whether the estimated costs of closure took sufficient account of the increase in employment by other British manufacturers which could follow the imposition of import controls and whether it was right to assume that there would be a net increase of unemployment of 55,000 for a complete year.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet would need to resume their discussion the following day. The arguments which he had heard so far did not seem to him to answer completely the case made by the Secretary of State for Industry. Before the discussion was resumed however some additional course of action should be investigated urgently. First
the Government might itself take over Linwood and arrange the production and marketing of Land Rovers and Range Rovers. If an order was placed on the Government's account there might be good prospects of the vehicles being sold overseas when world economic activity increased. The armed forces might also increase their purchases. The second course would be to insist that if Chrysler closed the Linwood plant should be transferred free of charge to the Government. This would give some assurance at least that the Government would make every effort to ensure that alternative employment was brought there at the earliest possible moment. It would also be helpful if the Chancellor of the Duchy of Lancaster would involve himself, before their next meeting in an examination of the practicability of securing the continued operation of those parts of Chrysler's business which had a viable future. In doing so he should concentrate particularly on the possibility of preserving employment at Linwood.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion and agreed that it should be resumed at their next meeting.

2. Invited the Secretary of State for Industry to study, before the next meeting, the possibility of producing Land Rovers and Range Rovers at Chrysler's Linwood plant on the basis of a Government order for those vehicles. He should also study the possibility of insisting on the transfer of the Linwood plant to the Government in the event of the closure of Chrysler (UK)Ltd.

3. Invited the Chancellor of the Duchy of Lancaster, in consultation with the Secretary of State for Industry, to explore the practicability of maintaining in operation those parts of the business of Chrysler (UK) Ltd which were profitable in the event of the closure of the company as a whole, to concentrate particularly on the possibility of continuing some of the operations at Linwood; and to report to the Cabinet at their next meeting.

Cabinet Office

4 December 1975
CONCLUSIONS of a Meeting of the Cabinet held at 10 Downing Street on FRIDAY 5 DECEMBER 1975 at 9.30 am

PRESENT
The Rt Hon Harold Wilson MP Prime Minister
The Rt Hon James Callaghan MP Secretary of State for Foreign and Commonwealth Affairs (In the Chair for Items 2 and 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 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 Fred Peart MP Minister of Agriculture, Fisheries and Food (Item 1)
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 Harold Lever MP Chancellor of the Duchy of Lancaster
The Cabinet resumed its consideration of Chrysler. Their discussion and the conclusions reached are recorded separately.

The Cabinet considered the basis on which a final approach should be made to the Chrysler Corporation. Their discussion and the conclusions reached are recorded separately.

The Cabinet discussed the timing of consultations with the European Commission and others about import controls on cars. Their discussion and the conclusions reached are recorded separately.
The Cabinet resumed their discussion.

The Secretary of State for Industry said that at the meeting of the Cabinet the day before he had been asked to study the possibility of insisting on the transfer of the Linwood plant to the Government in the event of the closure of Chrysler (UK) Ltd. He would be prepared to put to Chrysler that they should make this transfer free of charge if his recommendations were accepted.

The Chancellor of the Duchy of Lancaster said that he had been asked to explore further the practicability of maintaining in operation those parts of the business of Chrysler (UK) Ltd which were profitable. After careful study he concluded that the option presented by Scheme B was even more unfavourable than the memorandum by the Secretary of State suggested. Although it involved a payment by Chrysler of £35 million it also involved the Government assuming responsibility for past losses of Chrysler (UK) Ltd. He would advise against acceptance of any scheme based on a once-for-all payment by Chrysler.

In discussion it was argued on the one hand that the value of a company to the country could not be measured by its profitability. If each unprofitable plant were closed in turn there would be a progressive contraction of the country's manufacturing base. The domestic market should be protected by the imposition of import restrictions. From this secure base Chrysler (UK) Ltd should be taken into public ownership, reconstructed, and brought to viability. Once in Government ownership management and workers would have a joint interest in making the company self-supporting. On the other hand it was strongly argued that the situation now reached was merely the culmination of a long history. Ten years earlier Rootes had been the weakest of the British motor car companies. They had then been taken over by the weakest
American company. If the Government took over the company they would be deceiving themselves and the company's workers. It would merely postpone the inevitable closure. While the country's industrial base needed to be reconstructed this company did not provide the kind of firm foundation on which future strength could be built.

There was a wide measure of agreement that the Government should not support Scheme B. This scheme involved the Government taking over the liabilities of Chrysler (UK) Ltd and thereby meeting part of the cost of losses which had already been incurred. Any arrangement under which the Government alone had an open-ended financial responsibility for the company, and Chrysler made only a defined contribution without any share of the consequences of the actual profits or losses, would be extremely hazardous. The report by Coopers and Lybrand (CL) commented that the estimates for scheme B contained no contingency margin for the consequences of a major strike and made inadequate provision for depreciation. They described it as an inappropriate base for an investment decision. On the other hand it was pointed out that the viability criteria in CL's report were unduly severe and that the report did not specifically say that scheme B was not viable. But even setting aside the CL reservations the whole future of the company after reorganisation was critically dependent on the Iranian contract; 60 per cent of the company's car output depended on this contract. In practice, however, actual deliveries to Iran had never reached the levels foreseen in the contract, and the contract itself expired in 1978. While it might be renewed this could not be relied on and Iran had made public its intention to achieve self-sufficiency in the production of cars by 1981. Nor was the contract particularly profitable. However if the Government rejected scheme B without themselves making positive proposals to Chrysler they would be in a weak presentational position when this became public. There would, therefore, be advantage in a further approach to Chrysler in which the Government set out the basis on which they would be prepared to participate in such a reorganisation.

There was general agreement that in the event of a complete closure special measures would need to be taken to mitigate the consequences and that these would need to be concentrated on the situation at Linwood where the repercussions of closure on Scottish political opinion were likely to be highly damaging to the Government and the opportunities for alternative employment were particularly poor. It was essential that any announcement of the closure should set out definitive measures which the Government were going to take. Proposals for a redundancy scheme had been brought forward as the Cabinet instructed but there were valid objections to any such
scheme. There would certainly be public criticism of special measures to assist workers in the motor industry who had been particularly highly paid while many others who were paid less were being made redundant, some of them as a direct consequence of Government policy decisions, and were getting no special assistance. It was to be expected that many of the skilled workers from Chrysler who would get benefits from such a scheme would in fact get alternative employment quickly, but by doing so would put out of work other people who would get no special benefits. One possible course would be to alter the scheme so that it followed more closely the scheme for payments to redundant mineworkers. Another alternative was to make similar sums available to attract alternative employment. The possibility discussed at the previous meeting of arranging for the production at Linwood of Land Rovers and Range Rovers to Government order could be pursued further, while the attitude of British Leyland to the Linwood plant might well alter if it were made clear to them that they would be given additional Government finance if they were to take it over. If Chrysler went into liquidation there might be other purchasers for their facilities who might be given assistance. Alternatively, the Government could itself take over from Chrysler the Linwood plant and take the responsibility for finding a use for it. Another course would be to give the Scottish Development Agency additional finance to bring additional employment to the Clyde Valley. There might be advantage in appointing a senior industrialist to supervise all the action taken to secure alternative employment in the areas affected by Chrysler's closure, including the possibility of purchasing some of the company's assets.

There was general agreement that in the event of Chrysler's closure the Government should introduce import restrictions on motor cars. Politically it would be imperative to take positive action and the closure would present the best possible opportunity to secure international agreement for import restrictions, though it should not be assumed that such agreement would be easily or certainly obtained. It was, however, argued that in practice import restrictions would confer few benefits. It was inability to produce rather than a lack of demand which was at present limiting the output of British companies. If restrictions were imposed they should be strictly temporary because the competitive stimulus to efficiency must not be removed.

There was wide support for the view that an effort should be made to preserve the Iran contract for Britain. The balance of payments benefits were large and the consequences for United Kingdom/Iranian relations would be severe if the whole Iranian motor industry were to be disrupted as a consequence of failures in Britain. The contract with Iran was the property of the Chrysler Corporation,
riot their United Kingdom subsidiary, and it would accordingly be necessary to try to secure their agreement to its being transferred to British Leyland. Consideration should also be given to an early approach to the Iranian Government so that their assistance might be obtained in finding a solution to the problems which both countries would face.

THE PRIME MINISTER, summing up the discussion, said that there was general agreement in the Cabinet that the Government should not participate in scheme 3 in its present form. There would, however, be advantage in a further offer to Chrysler in which the Government set out the basis on which they would be willing to participate in a reorganization of this kind. If such an offer were to be made in good faith, however, it would be necessary for its terms to be carefully drawn up so as to be acceptable to the Government if they were accepted by Chrysler. A number of further studies should be set in hand against the possibility that no agreement would be reached on this basis including means to ensure that the Iranian contract continued to be met from Britain and the measures to be taken to mitigate the consequences of the redundancies which would follow Chrysler's closure. The measures to be considered were any redundancy payment scheme and the provision of additional finance - whether through the Scottish Development Agency or by any other means - to attract alternative employment to Linwood. He himself had favoured the Government taking over the Linwood plant from Chrysler - there would be a strong argument for their doing so free of charge - and ensuring employment by means of a Government order for Land Rovers and Range Rovers: but other possibilities of using the Linwood site should be examined. There would also be advantage in the appointment of an industrial executive to take overall supervision of the follow-up to the closure including the purchase of some Chrysler assets and the generation of alternative employment both at Linwood and at other areas affected. These studies should be undertaken by a group of the Ministers most closely concerned under the Chairmanship of the Chancellor of the Exchequer.

If the Government's offer were rejected it would be necessary to announce the positive measures which they were taking at the same time as the decision on Chrysler was announced. Any announcement should therefore be delayed until the formal agreement of the European Commission to the introduction of import restrictions on cars had been obtained and until the reaction of the United States and Japanese Governments to the proposal was known. The Cabinet would reach decisions in the light of the final negotiation with Chrysler and the report from the group of Ministers who would be considering the alternative courses for mitigating the consequences.
of unemployment resulting from the closure and of attracting alternative employment. It was essential that security was maintained about the Cabinet's discussion on this subject. It would be extremely damaging if the substance of their decision became known before it was possible to set out the reasoning which led to their decision. For tactical reasons any debate on Chrysler might have to be separate from the forthcoming debate on unemployment.

The Cabinet -

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

2. Invited the Secretary of State for Industry in consultation with the Secretary of State for Scotland, the Chancellor of the Duchy of Lancaster and the Paymaster General to continue negotiations with Chrysler.

3. Invited the Chancellor of the Exchequer, in consultation with the Secretaries of State for Industry, Scotland, Trade and Employment and the Chancellor of the Duchy of Lancaster to consider further the proposals which had been made for action to mitigate the consequences of the unemployment which would result if Chrysler closed and of the alternative means of attracting employment to the areas affected, and to report to the Cabinet at their meeting on 11 December.

The Cabinet resumed their consideration of the basis on which a final approach should be made to Mr Riccardo. There was general agreement that we could accept no share in past losses. As regards the future, there was an argument for asking Mr Riccardo whether there was any basis on which the United Kingdom Government could share responsibility with the Chrysler Corporation. On balance however it was felt that this was not sufficiently specific and that a firm offer should be put which Mr Riccardo would have either to accept or to reject.

THE FOREIGN AND COMMONWEALTH SECRETARY, summing up a brief discussion, said that the Cabinet agreed that an offer should be made to Mr Riccardo on the basis that while the Chrysler Corporation would have to cover all past losses the United Kingdom
Government would finance their estimate of losses over the next two years up to a stated maximum. Thereafter the United Kingdom Government and the Chrysler Corporation would have to share between them any continuing losses. A figure of £40 million had been mentioned as the estimate for Chrysler's losses over the next two years but the negotiating team, comprising the Secretary of State for Industry, the Secretary of State for Scotland, the Chancellor of the Duchy of Lancaster and the Paymaster General, who would be meeting Mr Riccardo that afternoon, should settle between them the precise figure to be put forward and any other outstanding details of the offer. Should Mr Riccardo reject the offer there would need to be discussions with the Chrysler Corporation about redundancy arrangements and the Iran contract, but it would be premature to raise these matters with him until he had rejected our offer.

The Cabinet -

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

3. The Cabinet discussed the timing of consultation with the European Commission and foreign Governments about import controls on cars on the assumption that Chrysler (UK)Ltd would go into liquidation following Mr Riccardo's rejection of their offer.

THE FOREIGN AND COMMONWEALTH SECRETARY, summing up a brief discussion, said that we should want the Commission to take a firm decision at their regular weekly meeting on Wednesday 10 December. The Commission would however need adequate time for discussion and consultation with member Governments. Accordingly the United Kingdom Permanent Representative should forthwith warn Herr Gundelach, the Commissioner concerned, that, while we still awaited a final answer from the Chrysler Corporation, it seemed likely that Chryslers would cease operations in the very near future. If so we would hope that the Commission would give a favourable ruling on import controls on 10 December. We would make a formal application to the Commission as soon as possible but in any case Herr Gundelach might want to arrange for some informal discussion within the Commission on Monday 8 December. It would also be important to support our application to the Commission with lobbying in other Community posts, but the precise timing of this should be left for further consideration in the light of the discussion with Mr Riccardo. It would also be important
to consult the International Monetary Fund and to inform the United States Government in good time but this should not be done until it was clear that Mr Riccardo had turned down our latest offer.

The Cabinet -

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

Cabinet Office

5 December 1975
### CABINET

**CONCLUSIONS of a Meeting of the Cabinet**

held at 10 Downing Street on

**TUESDAY 9 DECEMBER 1975**

at 9.30 am

**PRESENT**

The Rt Hon Harold Wilson MP  
Prime Minister

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The Cabinet considered Public Expenditure. The discussion and the conclusions reached are recorded separately.

Cabinet Office

9 December 1975
The Cabinet had before them a memorandum by the Chancellor of the Exchequer (C(75) 137) and a memorandum by the Central Policy Review Staff (C(75) 143) on public expenditure to 1979-80.

The Prime Minister said that on 13 November the Cabinet had agreed that public expenditure plans for 1977-78 and 1978-79, as set out in the last public expenditure White Paper, should be cut; and that in 1978-79 there should be a reduction of £3,750 million. The Chief Secretary to the Treasury had been asked to have bilateral discussions with each spending Minister on the contribution which would be needed from each programme to make up this total; and as a result savings of £2,600 million had already been agreed towards the required £3,750 million. This indicated a welcome spirit of cooperation on the part of the spending Ministers. However, there was still £1,150 million to find, and the report by the Chief Secretary set out options totalling £2,300 million from which the Cabinet would need to choose. Treasury Ministers had made no specific proposals on this choice, but the Central Policy Review Staff (CPRS) had put forward a possible package in order to help focus the argument.

The Chancellor of the Exchequer said that the Cabinet had agreed to reduce expenditure in 1978-79 by £3,750 million. The fact that this figure had become known made it the more essential to attain it if confidence was to be maintained. In any case failure to make cuts of this order would imply an increase in taxes which would jeopardise the Government's pay policy. Even if final decisions were taken that day, it would not be possible to publish the next public expenditure White Paper until early in February, which would be some two months later than normal. The effective cut would be significantly less than £3,750 million because public expenditure had been growing at well above the planned rate since the publication of the last White Paper. Furthermore, no public credit could be taken for cuts arising from the change in the basis of social security upratings, since the assumptions built into the present figures had never been announced. The White Paper would have inevitably to give debt interest figures, the increase in which would wipe out the savings in the first year or
two; but this was the unavoidable result of running a very large borrowing requirement. He reminded Cabinet that when they had reached agreement on the reductions in each programme for 1978-79, it would be necessary to agree concomitant cuts in 1977-78 and 1979-80, a process which could probably be settled in bilateral talks between the Treasury and the spending Ministers. The task for Cabinet was to make a choice reflecting their own political and social priorities so as to add up to total additional cuts of £1,150 million. He had tried to discuss what these priorities should be with the Trades Union Congress (TUC); but the TUC were naturally against cuts of this order and individual members had sectional interests to protect. The talks had, however, revealed some misunderstanding on the part of the trades unions on how far the expenditure cuts would affect employment in the coming year, and he proposed to meet the six TUC members of the National Economic Development Council again to explain this point. It was clear that the total reduction needed could not be obtained unless there were major contributions from the programmes run by the Department of Health and Social Security, the Department of the Environment and the Ministry of Defence.

The Cabinet then reviewed the main spending programmes in turn.

Health and Personal Social Services

A reduction of £166 million had been agreed in the bilateral discussion. Disagreed items totalled £316 million. Of the latter figure, £219 million was because the Secretary of State for Social Services had insisted that provision should be made for total capital and current expenditure to rise at 1\(\frac{1}{2}\) per cent a year on hospital and community services and at 2 per cent a year on personal social services. If there were a complete standstill in the growth of this expenditure, this money could be saved. It had to be remembered that the base from which this growth would start was a great deal higher than that of 5 years ago, and in the intervening period there had been increases of over 20 per cent in technical and medical staff and of over 60 per cent in administrative and clerical staffs - all far higher than could possibly be justified by demographic factors.

Against this it was argued that the number of elderly people, who needed more, and more intensive, Health Service care was increasing - the over 75s were increasing at 2 per cent a year. At the same time children in care were increasing by 2\(\frac{1}{2}\) per cent a year. Even a 2 per cent increase in expenditure on personal social services would mean a severe cutback in planned developments. The more community care was reduced, the more impossible it became to move elderly or handicapped people from expensive hospital accommodation. Local authorities needed 3,500 more residential places each year and 1,000 more day care places each year simply to keep pace with the increasing need. At present 7,000 elderly people were accommodated in old workhouses. This was the reality which lay behind this programme. The Treasury
proposals on the health service would mean an absolute reduction in expenditure on the service for the first time in history; and this would be totally unacceptable both to the Labour Party and to the National Health Service (NHS) workers. Demographic changes alone called for an increase of 1 per cent a year in Health Service expenditure and it was not true, as the CPRS had suggested, that this could be offset by the fall in the number of children. Elderly people over 65 cost five times as much as children to care for, and those over 75 cost eight times as much. A further increase of one half per cent a year in expenditure was necessary simply to keep pace with changes in medical technology - and this without seeking to do more than offer a service which was reasonable in present circumstances. If the Government cut the capital expenditure programme further, it would mean a moratorium on all new building and thus a deteriorating Health Service at a time when half of the existing hospitals were pre-1914, and one third of them were 19th century. Nor was it true that capital cuts in 1978-79 would not have immediate effects on unemployment, since the only way to achieve them would be by not starting projects which would otherwise begin in the near future.

THE PRIME MINISTER, summing up this part of the discussion, said that the Secretary of State for Social Services should consult further bilaterally with the Chief Secretary to consider what would be the least damaging way of saving £100 million, on the understanding that provision would have to be made to cope with demographic increases in both hospital and non-hospital expenditure. The object would be to set before Cabinet urgently a statement, in terms of priorities, of what consequences would flow from a cut of £100 million.

The main point of dispute on this programme related to the uprating of social security benefits. The figures at present in the programme assumed that upratings would be in line with the historical movement of earnings or prices. If the calculations were made on the basis of forecast movements of earnings or prices, it would be possible to reduce the provision for 1978-79 by £508 million. Of this sum, £200 million had been agreed in the bilateral discussion with the Treasury and was included in the agreed savings of £270 million shown in the Chancellor of the Exchequer's paper (C(75) 137); and the Secretary of State for Social Services indicated in the course of discussion her willingness to increase the £200 million to £300 million, but not to £508 million.

It was argued that complete adoption of the forecast in place of the historical basis was wholly consistent with the Party Manifesto, which only committed the Government to linking future increases in pensions and other benefits to the rise in wages and not just prices. There was no suggestion that that commitment should be dropped, only that there was no need to go beyond it. Against this it was argued that the historic method had been forced upon the Department of Health and Social Security at a time when the forecast method would
have been disadvantageous to the Treasury and that it would be
dishonourable, now that circumstances had changed, to alter the
rules at the point in time at which, because of the fall in the rate
of inflation, the pensioners might begin to benefit from the historic
basis. Furthermore, there were the recommendations of the inter-departmental Group on Financial Poverty which Ministers were about
to consider. It would be wrong to agree further cuts in social security
expenditure unless it was clear that the cost of the proposals for
relieving poverty would be treated as an offset to those savings. In
further discussion it was argued that the compromise figure of
£300 million saving on this score was not sufficient; and that the
full £508 million should be agreed on the basis that if, in the event,
the earnings forecasts upon which the proposed expenditure figures
were constructed proved to be false, then the Treasury would make
sufficient funds available to compensate for this factor. The proposals
for the relief of poverty would have to be considered separately on
their merits.

THE PRIME MINISTER, summing up this part of the discussion, said
that the Cabinet were agreed in principle that additional savings of
£308 million should be secured on this programme by changing the
basis of the uprating; but that this decision would be considered
further when Cabinet had a report on the further bilateral exchange
on the Health and Personal Social Services programme which they
had invited the Secretary of State for Social Services and the Chief
Secretary, Treasury to conduct.

It was pointed out that the bilateral discussions had resulted in
acceptance of the "formula cuts" in full, plus a further £400 million.
The Department of the Environment was responsible for 17 per cent
of total expenditure, and had accepted 38 per cent of the total cuts
agreed in the bilateral talks. Proportionately more had been cut
from this programme in the bilaterals than from any other.

On Roads expenditure, it was suggested that in theory, if no new roads
were started for the next 3 years, some £500 million could be saved.
This would not, however, be a practicable proposition, but it was
suggested that some £150 million could be saved in starts in the roads
programme, and a further £10 million on car parks. It was observed
that in Wales the completion of the M4, which was regarded as
imperative for regional regeneration, continued to carry the highest
priority.

On Housing expenditure the building programme was an open-end ed
one, with no direct control exercised by the central Government.
The figures entered in the Survey were simply estimates of what
local authorities were expected to build. Local authority houses
were expected to increase by some 165,000 a year, and if this
estimate were cut by 11,000, it could provide the £124 million of
savings which the Treasury had proposed. However, even if such an
adjustment to the estimate were considered justifiable, the
Department of the Environment would be reluctant to publish such
figures.
On local authority mortgage lending, the Survey provision stood at £393 million, and this might be cut by £200 million if the Building Societies could be encouraged to lend the money instead. One possibility might be for the Government to guarantee Building Society mortgages; but it was pointed out that it was the age of the property rather than the unreliability of the mortgagor which made the Building Societies reluctant. In any case, additional lending by the Building Societies would be reflected in a lower holding of gilt edged stock by them, which would exacerbate the problem of managing the public sector borrowing requirement.

In Wales, housing was of the utmost importance and called for a high order of priority. Success was now beginning to be achieved in getting more houses built, and it would be difficult to pull back — indeed present prospects were that local authority building would go beyond the Survey allocation. If there were to be cuts, the proportion as between England and Wales would need to take account of the fact that 45 per cent of Welsh houses were pre-1914 and that 60 per cent were owner-occupied.

On the sale of council houses, it was suggested there might be some merit in a scheme for the life enfranchisement of tenants who had occupied a local authority house for, say, ten or twenty years. Such a scheme could produce large savings in the cost of administration, maintenance and repair. Average expenditure on the maintenance of local authority houses was some £68 per house per year; and some authorities had to spend a great deal more than this because of the age of their housing stock. It would however be difficult to quantify the savings which would arise from a move of this kind.

Total cuts of £580 million had been agreed on Education in the bilateral discussions. The Treasury sought a further £124 million. It was pointed out that Education expenditure had a long history of expansion, and that in England and Wales there was an increase in real terms from £3,745 million in 1970-71 to £4,606 million in 1978-79, even after the agreed cuts. Teaching staffs had risen by 25 per cent and non-teaching staff by 21 per cent, whereas pupil numbers had risen by only 11 per cent. Fees for evening classes covered only 30 per cent of costs and fees for overseas students covered only 10 per cent of costs, regardless of the personal circumstances of the student concerned. It was considered that there must also be room for administrative savings.

Against this it was argued that the cuts which had already been agreed went to the limit of what was defensible, and perhaps what was practicable. Expenditure on Further Education was connected closely with industrial training, and was needed to meet increasing demand. The Treasury argument appeared to be that Education had done well under the previous Administration and should therefore be
cut under the present Government. It was pointed out that, as compared with the last Conservative expenditure White Paper, Education expenditure would show a 15 per cent cut at a time when Defence showed an 8 per cent cut and housing showed a 69.5 per cent increase. The situation was significantly worse in Scotland where, because of differences in the educational system, the formula cuts produced a much greater percentage reduction in expenditure compared with England.

In further discussion reference was made to the outstanding success of the Open University, which received 50,000 acceptable applications every year, was the biggest educational publisher in the world, and a large earner of foreign exchange. High fixed costs, however, meant that cuts would have a disproportionate effect upon student numbers which would have to be reduced to 6,520 in 1978-79; expenditure cuts of this kind would be most unwise.

In the bilateral discussion, the figure of £180 million for food subsidies in 1978-79 had been reduced to £150 million as a first stage in the elimination of such subsidies by 1979-80. The Treasury proposed that the run-down should be advanced by one year to 1978-79, which would save a further £100 million.

THE PRIME MINISTER, summing up a brief discussion on this subject, said that the Cabinet agreed that the figure for food subsidies in 1978-79 should be reduced by a further £50 million on the understanding that nevertheless the figure for food subsidies was likely to be an element in the bargaining which would have to be undertaken with the TUC in the evolution of counter-inflationary policy for 1976-77.

The bilateral discussion had led to agreement that expenditure on defence in 1978-79 should be reduced by £100 million. In the view of the Treasury a further £350 million should be cut: it would be wholly unacceptable to the Labour Party if the Government were to cut total public expenditure by £3,750 million with all that such a cut implied for Education and the social services programmes, and at the same time reduce defence by no more than £100 million.

Against this it was argued that the defence budget had very recently been subjected to a thorough review of a kind experienced by no other programme, and was now down to the minimum acceptable level. To cut it further would have serious political, industrial, military and international consequences. Further cuts would appal the Germans and the Americans; would begin the break up of the North Atlantic Treaty Organisation (NATO), would be contrary to the United Kingdom's obligations under the Brussels Treaty; and would jeopardise the negotiations for mutual balanced force reductions in Europe. Export orders - for Chieftain tanks to Iran, for example, worth between £600 and £1,000 million - might be lost if confidence were
disturbed by cuts of this kind. The defence policy of the United Kingdom had already been drastically changed by the Defence Review, and Britain would be withdrawing from Singapore, from Ghan, from Malta, and from Cyprus, and would be concentrating on her NATO obligations. That Review would reduce service and civilian manpower by 68,000; and would cut Ministry of Defence staffs by 10 per cent, with a management review in hand to bring about a further 10 per cent reduction thereafter. The further cuts now demanded would lead to the widespread deferment and cancellation of equipment, on which 5,000 jobs in industry could depend, and the closure of Defence establishments; it would seriously interfere with the policy of dispersing staff from London. The shipbuilding and aircraft industries could be seriously damaged, and it would, for example, be impossible to save Swan Hunter, who were asking for the advance placing of a defence order in order to survive.

In further discussion the international implications of further defence cuts were emphasised. If failure to achieve the overall cuts of £3,750 million was likely to lead to loss of overseas confidence, it was equally true that severe defence cuts at the present time were just as likely to lead to loss of confidence overseas. On domestic programmes most cuts meant either a standstill or a reduced rate of growth which could subsequently be repaired. But cuts in defence expenditure implied a change in our historic position in the world which was irreversible. There was a danger, if Britain began to contract out of NATO, that some elements in Germany would wish that country to become a bigger force in central Europe, and might well press for Germany to become a nuclear power. It might be that a future German Government would have reason to embark on vast military expenditure, provoke a change in the whole attitude of the USSR, and thus jeopardise international peace. Furthermore, the present moment was the worst possible time for cuts which might call in question the possibility of a successful negotiation for mutual balanced force reductions, on which a basis for an offer to the USSR had just been agreed by the West. To endanger this might be to lose the first opportunity of reducing the armed forces facing each other in Europe. The Americans tended to regard us as their most reliable partners in NATO; but further defence cuts might well mean that Germany would begin to take our place in American eyes.

Against this it was argued that it was very odd if our allies did not mind if we undertook inflationary defence expenditure which we could not sustain when the real question was whether other countries wanted Britain as an economically strong ally or were content for her to be a weak power. One of the reasons for our weakness was that over the years we had spent proportionately more on defence than other countries. Even after the cuts proposed by the Treasury, we would be spending 5 per cent of our GNP on defence compared with the NATO average of 3.9 per cent. This could hardly be represented as a betrayal of the alliance. The Ministry of Defence were
proposing to spend in 1978-79, primarily on NATO, more than had previously been spent on a much wider range of defence activity. It was not true to say that the further cuts would mean contracting out of NATO, since we should be willing to spend as much proportionately on defence as our allies did, merely asking them to recognise the weaker condition of the British economy.

THE PRIME MINISTER, summing up this part of the discussion, said that, while no final decision could be taken at the present meeting, there would be advantage if Cabinet could have before them a paper indicating the practicability and consequences of a total cut of £275 million in defence expenditure concentrating mainly on support services and not allowing expenditure on NATO to fall below the critical level or failing to meet the United Kingdom obligation under the Brussels Treaty. This might be made up of £100 million slippage on equipment ordering; £75 million from reductions on headquarters staff numbers; and £100 million from research and development, which was normally controlled by ceilings on numbers and expenditure and which therefore expanded to take up whatever ceilings were fixed. The Secretary of State for Defence should prepare a paper setting out the consequences - including the consequences for industry - of cuts of this kind.

In the course of discussion the following additional points were made -

a. The Cabinet had so far considered only the major programmes. This did not imply that the smaller programmes were too insignificant for consideration, and it was possible that a collection of small cuts would be able to contribute significantly to the required total.

b. The cuts under discussion would not bite until 1977-78, by which time it was hoped the economic upturn would be under way. Nevertheless, there were some reductions which would require immediate action and would impinge on the employment situation in 1976-77.

c. It was arguable that it was unnecessary for Ministers to suffer the difficulty of making expenditure cuts so far ahead; but against this it was pointed out that unless the Government were seen to be planning major expenditure cuts, overseas confidence would be lost and it would become impossible even to get through 1976-77.

d. It was illogical to be considering cutting public expenditure without at the same time considering the possible taxation alternatives. On the other hand, the prospect was such that all tolerable taxation increases were likely to be needed in addition to the expenditure cuts now under consideration.
e. The Secretary of State for Industry had indicated to the Treasury that an additional £50 million would be needed in 1978-79 for the National Enterprise Board. The Treasury preferred to keep the present, strictly conventional, run of figures; but if in fact the £50 million were added, this would increase the total additional savings required from £1,150 million to £1,200 million.

THE PRIME MINISTER said that the position to date was that the Cabinet had agreed to an additional reduction in 1978-79 of £50 million in expenditure on Food Subsidies; had agreed in principle to an additional saving of £308 million on Social Security expenditure, but would review this in the light of the ultimate decision on expenditure on the Health programme. There was no time to conclude their examination of public expenditure that day; they would continue their discussion at the next meeting of the Cabinet when further consideration would be given to the programmes of the Departments of the Environment and Education and Science. They awaited the result of a further bilateral consultation between the Secretary of State for Social Services and the Chief Secretary on the possibility of a further cut of £100 million in Health expenditure; and awaited a paper by the Secretary of State for Defence on the implications of a further cut of £175 million in defence expenditure. If papers on these questions could not be circulated in time for the next meeting of the Cabinet, there should be oral reports on these two subjects so as to make it possible for the Cabinet to agree, at that meeting, on the overall magnitude of the public expenditure cut.

The Cabinet -

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

Cabinet Office

9 December 1975
CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 11 DECEMBER 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

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 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 Fred Peart MP
Minister of Agriculture, Fisheries and Food

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

THE FOLLOWING WERE ALSO PRESENT

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

The Rt Hon Joel Barnett MP  
Chief Secretary, Treasury (Item 2)

SECRETARIAT

Sir John Hunt  
Mr P Benner (Item 1)  
Mr J A Hamilton (Item 2)  
Mr J A Marshall (Item 2)

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Item  
Subject

1.  
PARLIAMENTARY AFFAIRS

2.  
PUBLIC EXPENDITURE
1. The Cabinet were informed of the business to be taken in the House of Commons during the following week. It was proposed that the House should adjourn for the Christmas Recess on 19 December and resume on 12 January 1976.

It was proposed that 16 December should be a Supply Day devoted to a debate on the motor vehicle industry, during which the Government's decision on Chrysler would no doubt be one of the main issues. On 17 December there would be a debate, arising on a Motion for the adjournment, about unemployment and the Government's proposals for countering it. Preparations for these major debates would involve considerable timetable difficulties. As regards Chrysler, there had been recent developments which would have to be considered urgently by the Ministerial Group before a report could be made to the Cabinet and discussed by them. The aim would be to reach decisions within the next day or so. After that, it would become possible to turn to the question of import controls, with the objective of reaching conclusions and completing the necessary consultations with the European Economic Community in time for firm decisions to be announced by the Chancellor of the Exchequer in the debate on 17 December. This was a matter on which there was much anxiety amongst the Government's backbench supporters; but it was unlikely that decisions could be taken in time for a separate announcement to be made in advance of the debate on 17 December.

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

Cabinet Office

11 December 1975
Thursday 11 December 1975 at 9.30 am

The Cabinet resumed their consideration of the memorandum by the Chancellor of the Exchequer (C(75) 137) and the memorandum by the Central Policy Review Staff (C(75) 143) on public expenditure to 1979-80.

In discussion it was argued that the Treasury proposal of an additional cut of £124 million was unreasonable. The whole of the "formula cuts" applicable to this programme had been accepted; and in the case of the Education programme the formula applied to virtually the whole of the expenditure, which was not true of all other programmes. Against this it was argued that Education expenditure would be rising steeply between 1970-71 and 1978-79, even after making the proposed additional cut, in spite of the fact that demographic considerations pointed in the opposite direction. There should be scope for cutting at least £100 million without touching basic educational needs.

Expenditure on evening classes of peripheral importance and the cost of educating overseas students who could well afford to bear a far larger part of the cost themselves were two areas where savings might be made. Reference was made to the inefficient use to which expensive capital facilities in universities were put as a result of the undesirably short teaching terms, a waste which was compounded when the students drew social security benefit during the long vacations.

THE PRIME MINISTER, summing up this part of the discussion, said that particular concern had been expressed at the burden on the British taxpayer of subsidising well-to-do overseas students. It was accepted, however, that since universities were independent institutions, it would take time to obtain the degree of consent needed
to bring about a substantial increase in the charges made, but it was thought that this could be achieved by 1978. In the meantime while it would be unwise to announce a specific saving in the White Paper from this source, a saving of £25 million should be scored. A further £25 million saving - preferably without affecting expenditure on the Open University - could be made on the Education programme generally, making a total of £50 million. The Secretary of State for Education and Science had indicated that he would be willing within this total to find the Welsh and Scottish share by savings on the expenditure under his control.

The Cabinet -

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

In the bilateral discussions, it had been agreed that the expenditure under the control of the Department of the Environment (Roads and Transport, Housing and Other Environmental Services) should be reduced by the full extent of the "formula cuts" and a further £400 million over and above that. The additional reductions now proposed by the Chief Secretary, Treasury, were: £150-£200 million off roads; £200 million off local authority mortgage lending (switching it to the Building Societies); and £100 million off housing expenditure (improvement grants, increased sales of council houses and the adoption of a more realistic estimate of the number of local authority houses likely to be started). It was suggested that it might be possible to persuade the Building Societies to undertake the additional lending if the Government were prepared to guarantee the mortgages. Although large cuts had been agreed in the expenditure of the Department of the Environment (which, with 17 per cent of the expenditure under review, had provided 38 per cent of the cuts agreed) this was not of itself a reason for not cutting further, since the Cabinet had agreed at an earlier meeting that it would be important to select priorities rather than to rely upon across-the-board cuts. There was no special virtue in equality of misery, and it could well be argued that expenditure on eg roads ranked a good deal lower in Labour Party priorities than some other social expenditure. Against this it was argued that £250 million had already been taken off the roads expenditure shown in the last White Paper on Public Expenditure. On housing, it had to be remembered that there had already been a large reduction in local authority lending; that the question of municipalisation needed to be considered at the same time; and that the proposed reduction in lending would mean that the local authorities would be lending less than they would
be receiving in repayments. Furthermore, if the Building Society lending were increased, the Cabinet had already been told that this would make more difficult the problems of financing the public sector borrowing requirement, because the Building Societies would move out of gilt-edged securities to the extent that they undertook additional lending.

THE PRIME MINISTER, summing up this part of the discussion, said that the general feeling in the Cabinet was that there should be a further reduction of £225 million in this expenditure. It would be for the Ministers concerned to decide how these reductions should be made, in consultation with the Treasury, but they might look particularly at Roads expenditure, and, in the Housing field, at improvement grants, local authority mortgage lending and sales of council houses: there might be scope for an even greater overall saving depending on the degree to which local authority mortgage lending could be reduced.

The Cabinet –

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

In discussion it was suggested that there should be scope for a reduction in the staff of Departments, which were overmanned. It was pointed out that in four major Departments - Inland Revenue, Customs and Excise, Department of Health and Social Security and Department of the Environment - there had been an increase of 22,000 in staff up to October 1975, and a further increase of 23,000 was planned up to 1978. It was, however, recognised that much of this increase was the direct result of new policies. Since the Government took office they had created some 40,000 Civil Service posts, and in the next 18 months the legislation in prospect would require a further 40,000. To offset this, Departments would need to be more co-operative than they were at present in cutting their numbers as a result of staff inspections and similar operations. One possibility would be for Departments to be less stringent, and less perfectionist, in the execution of Government policies; it would have to be accepted that the public would get a rougher measure of justice than at present and that Ministers would have to defend this when questioned in Parliament. It was also suggested that some 3,000 staff could be saved by the abolition of the Vehicle Excise Duty (the present yield from which could be replaced by an increase on the tax on petrol), although it was recognised that this might have undesirable side effects on the pattern of demand for cars.
THE PRIME MINISTER, summing up this part of the discussion, said that there was general agreement that there was scope for a major exercise to bring about a reduction in the forecast level of Civil Service numbers. The Cabinet recognised that new policy developments created additional posts, and policy changes in the pipeline or in prospect might need to be reconsidered in this light; but the main weight of the exercise should be directed towards cutting out existing but unnecessary policies and practices as well as to achieving increased efficiency. The aims should be to achieve a reduction of 5 per cent in the forecast number of civil servants in 1978-79, a reduction which would secure savings of some £140 million. The Lord Privy Seal should pursue this urgently.

The Cabinet -

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

The Cabinet was reminded that at their last meeting the Chief Secretary, Treasury, and the Secretary of State for Social Services had been invited to consider bilaterally the least damaging way of saving £100 million on the Health and Personal Social Services programme. The two Ministers had not been able to agree upon a recommendation to put before the Cabinet. The Chief Secretary, Treasury, still recommended an additional saving of £100 million, obtained by restricting the growth of current expenditure on Health services (hospitals, community health services and other central health services excluding only the family practitioner services) to 1 per cent a year, allowing current expenditure on personal social services to grow by 2 per cent a year from its 1976-77 level, and applying the full "formula cuts" to the capital expenditure on each service. The Secretary of State for Social Services, however, considered that current expenditure on the Health services should be allowed to increase by not less than 1 1/2 per cent (of which 1 per cent was attributable to demographic factors, and the other 1/2 per cent to the need to cope with the rising costs of modern treatment and the equipping of new buildings as they came into commission). It would be impossible to hold the growth down to 1 per cent, and if such a cut were imposed the capital programme would have to be reduced below the level of the "formula cuts". This would be totally unacceptable and would in fact mean a moratorium on all new hospital building. The hospital capital programme already faced great difficulties in coping with the expenditure entailed in meeting higher fire precaution standards; and there was the further difficulty that failure to continue with the building programme would lead directly to increased maintenance costs on older buildings.
It was pointed out that it would no longer be practicable to pass a Bill to reverse the decision of Parliament earlier in the year on the change in the earnings rule due to come into effect in April 1976. However, there was a further change due to come into effect in April 1977, and it was felt that there would be merit, in the present conditions of severe restraint on public expenditure, in trying to obtain passage of a Bill which would avoid that later increase. The savings would be a good deal less than would have been achieved by a quick Bill, but they would be worth £18 million in 1978-79.

THE PRIME MINISTER, summing up this part of the discussion, said that the Secretary of State for Social Services had indicated her willingness to achieve additional cuts of £22 million by a standstill on capital expenditure on personal social services. If, in addition, an attempt were made to pass a Bill revoking, from April 1977, the change in the earnings rule which had been made earlier in the year, this would produce savings of £18 million in 1978-79, making £40 million in all. The general feeling in the Cabinet was that the saving on these programmes (in addition to the £308 million on Social Security which had been provisionally agreed at the previous meeting) should be not less than £60 million, although it was recognised that £18 million of this was dependent on the passage of the earnings rule legislation.

The Cabinet -

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

In discussion it was suggested that larger reductions in food subsidies than the £50 million already agreed for 1978-79 might be acceptable, since the main function of food subsidies up to the end of 1977 would be to negate the effect of having to harmonise United Kingdom food prices with Common Market prices, a transitional difficulty which finished at the end of 1977. Furthermore, it could be argued that food subsidies were primarily an insurance against inflation, and that if the Government successfully reined back the rate of inflation, the need for the subsidies would disappear. Against this it was argued that account needed to be taken of the fact that the wage round year, which ran from August to July, did not correspond with the financial year, and therefore that any cut in food subsidies in 1978-79 should take account of the need to retain some subsidies during the period April-July 1978 as part of the bargain which might need to be struck with trades unions on a third round of pay policy; food subsidies being something to which the unions attached great importance.
THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed that the provision for food subsidies in 1978-79 should be cut by £75 million instead of the £50 million agreed at their previous meeting. This took account of the point made on the difference between the financial and the wage round year; and furthermore it was accepted that, for similar reasons, it would not in this particular programme be acceptable to make consequential reductions in 1977-78.

The Cabinet -

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

The Cabinet was reminded that at the last meeting the Secretary of State for Defence had been invited to prepare a paper setting out the consequences of a total cut of £275 million (which would include the £100 million already agreed) in Defence expenditure.

THE PRIME MINISTER, summing up a brief discussion, said that it had not yet been possible for the Secretary of State for Defence to circulate the paper which had been requested. For the moment the additional saving of £175 million should be scored; but the Secretary of State for Defence’s position was that he did not at this stage accept all these savings and would first wish to set out for his colleagues the industrial, military, political and international consequences. He should bring the paper forward as soon as possible. His aim should be to take these savings on equipment, manpower and research and development, but if it could be shown that savings of this order would impair the critical level of our contribution to the North Atlantic Treaty Organisation (NATO) or would jeopardise our obligations under the Brussels Treaty, it would be necessary for the Cabinet to consider the matter further.

The Cabinet -

6. Took note, with approval, of the Prime Minister’s summing up of this part of their discussion.
THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet were agreed that there should be no reduction in the provision for overseas aid.

The Cabinet -

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

THE PRIME MINISTER, summing up a brief discussion, said that it was agreed that there would be no disclosure of details of the agreed reductions until the full White Paper on Public Expenditure was published, probably in February. In the meantime, it would be essential to avoid leaks about any part of them.

The Cabinet -

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

THE PRIME MINISTER, summing up the discussion, said that at their meeting on 13 November the Cabinet had agreed that public expenditure in 1978-79 should be cut by £3,750 million. The bilateral discussions between the Chief Secretary, Treasury, and the individual spending Ministers had resulted in agreed reductions of £2,600 million, leaving a further £1,150 million to find. Because it was not considered possible to pass a quick Bill to reverse the decision the House of Commons had taken earlier in the year on the earnings rule, £55 million of the £2,600 million was lost, so that the total additional savings which they needed to find was £1,205 million: this assumed that there would be no addition to 1978-79 expenditure for the National Enterprise Board. It had been agreed, subject to a caveat which he would make later on Defence, that savings should be found as follows:
The total was £172 million below the target, but the Chancellor of the Exchequer was prepared to accept this shortfall. Of the £60 million savings on Health and Personal Social Services, £18 million was contingent upon the passing of a Bill to amend the present earnings rule from April 1977, and it was recognised that Parliament might reject this. The full saving of £175 million on Defence was not yet accepted by the Secretary of State for Defence, who would put a paper to Cabinet as soon as possible on the industrial, political, military and international implications of a cut of this magnitude. It had been agreed at the meeting on 9 December that the Defence cuts should be made in such a way as to ensure that expenditure on NATO would not fall below the critical level and that United Kingdom obligations under the Brussels Treaty would be met; and if the Secretary of State for Defence could demonstrate that, even taking the maximum possible cuts on manpower, equipment and research and development, it was impossible to avoid encroaching on the NATO and Brussels Treaty expenditures, then Cabinet would need to consider the matter further. The saving of £140 million on Civil Service manpower was to be achieved by a cut of 5 per cent in the staff numbers forecast for 1978-79. The Lord Privy Seal should pursue this particular saving very urgently, and in doing so should lay emphasis on the need to examine old policies, procedures and practices which had not perhaps been questioned for a long time. The other savings which had been agreed might themselves in part consist of manpower cuts, but there should be no double counting; and the £140 million scored as a saving on Civil Service manpower should be additional to all other savings.

The Cabinet having settled the reductions to be made on the main programme, with the reservations he had noted, it would be for the Treasury to pursue bilaterally with the spending Departments the further contributions which might be made by the lesser programmes, and the consequential savings which would be needed in all programmes in 1977-78 and 1979-80. Much of the difficulty experienced in the conduct of the present exercise stemmed, not simply from the need to take decisions so far in advance (which

<table>
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<tr>
<th>Programme</th>
<th>Cut in 1978-79 (£ million) at 1975 Survey prices</th>
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<tr>
<td>Food subsidies</td>
<td>75</td>
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<tr>
<td>Health and personal social services</td>
<td>60</td>
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<tr>
<td>Social security</td>
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<tr>
<td>Defence</td>
<td>(175)</td>
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<tr>
<td>Education</td>
<td>50</td>
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<tr>
<td>Environment</td>
<td>225</td>
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<tr>
<td>Civil Service manpower</td>
<td>140</td>
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<td><strong>Total</strong></td>
<td><strong>1,033</strong></td>
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would continue to be necessary), but from the existing requirement to publish a great deal of detail in the annual White Paper; and the Cabinet took note that the Chancellor of the Exchequer would consider whether in fact it was necessary to continue to do this. The Cabinet also considered that present procedures were not well adapted to bringing out at an early stage possible policy changes, such as reductions in Civil Service manpower or the more intensive use of university capital facilities, which would take time to fructify. He would arrange for the Secretary of the Cabinet to consult with the spending Departments on the way in which matters of this kind, needing to be considered in the long term, could be identified.

The Cabinet —

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

10. Invited the Chief Secretary, Treasury, in the light of the decisions reached, to agree the detailed expenditure figures for the years up to and including 1979-80 with the spending Departments for the purposes of the next Public Expenditure White Paper.

11. Invited the Chief Secretary, Treasury, to discuss bilaterally with the Ministers responsible for smaller programmes any further contribution they might make to the savings.

12. Invited the Secretary of State for Defence to submit a further paper on the proposed additional cuts of £175 million in the Defence budget.

13. Invited the Lord Privy Seal to consider urgently the steps needed to bring about a reduction in Civil Service manpower in 1978-79 of 5 per cent below the forecast level.

14. Instructed the Secretary of the Cabinet to arrange, in consultation with the spending Departments, ways of identifying potential policy changes which would only come to fruition in the longer term.

Cabinet Office

12 December 1975
CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
FRIDAY 12 DECEMBER 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
(Item 1 and 2)

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

The Rt Hon Anthony Crosland MP
Secretary of State for the Environment
(Item 1)

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

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 (Item 1)

The Rt Hon Fred Peart MP
Minister of Agriculture, Fisheries and Food (Item 1)

The Rt Hon Lord Shepherd
Lord Privy Seal (Item 1)

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Michael Foot MP
Secretary of State for Employment

The Rt Hon Shirley Williams MP
Secretary of State for Prices and Consumer Protection (Item 1)

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 (Item 1)

The Rt Hon Harold Lever MP
Chancellor of the Duchy of Lancaster (Item 1)

The Rt Hon Fred Mulley MP
Secretary of State for Education and Science (Item 1)
The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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

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

The following were also present

The Rt Hon Samuel Silkin QC MP
Attorney General (Item 1)

The Rt Hon Edmund Dell MP
Paymaster General

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

SECRETARIAT

Sir John Hunt (Item 1)
Mr J A Hamilton
Mr C J Farrow

CONTENTS

Item

1. CHRYSLER (UK) LTD

2. IMPORT CONTROLS ON CARS
1. The Cabinet resumed their discussion of Chrysler. The discussion and the conclusions reached are recorded separately.

2. The Cabinet considered import controls on cars. The discussion and the conclusions reached are recorded separately.

Cabinet Office

12 December 1975
The Cabinet had before them two memoranda by the Secretary of State for Industry (C(75) 144 and 145) on negotiations which had taken place with the Chrysler Corporation about the future of Chrysler (UK) Ltd.

THE PRIME MINISTER said that the Ministerial Group on the Automobile Industry had considered the previous evening proposals for the support of Chrysler (UK) Ltd which had resulted from further negotiations with the Chrysler Corporation. There had been a clear majority, but not unanimity, among the Group for acceptance of the proposals. It was now for the Cabinet to decide whether or not to endorse that recommendation.

THE SECRETARY OF STATE FOR INDUSTRY said that at their meeting on 5 December (CC(75) 53rd Conclusions) the Cabinet had agreed that the Government should not participate in the arrangements known as scheme B. They had concluded however that there would be an advantage in making a positive offer to the Chrysler Corporation setting out alternative financial arrangements under which the Government would be prepared to support a scheme based on the physical plans contained in scheme B. It had been agreed that the proposal should include an offer by the Government to finance the losses incurred by Chrysler (UK) in 1976-77 based on Chrysler's own estimate that the losses would amount to £40 million. When negotiations had resumed the Chairman of the Chrysler Corporation, Mr Riccardo, had made clear that more financial assistance than this would be needed.

Following further discussions by the Ministerial Group the Government had offered to contribute up to £72 1/2 million towards losses by Chrysler (UK) Ltd in the next four years including £50 million in 1976 if losses were £60 million or more, to guarantee a borrowing of £35 million by Chrysler (UK) Ltd from Finance for Industry (FFI) provided that the Chrysler Corporation gave a counter-guarantee to the Government, and to finance by a loan a requirement for capital and model development of £55 million in the years 1976 to 1979: the first two years' expenditure, amounting to £28 million, to be subject to a guarantee by the Chrysler Corporation. Chrysler for their part had offered to produce the
C6 (Alpine) model at Ryton, and to meet the cost of £10-12 million involved in setting up a production line to assemble imported parts. If full production were to be undertaken this would cost a further £23-25 million. He considered these arrangements thoroughly unsatisfactory. Although the Government's financial commitments appeared to be limited they would in practice be open-ended. The assurances which the Government would have of continuity of operation in this country by Chrysler would be no more dependable than the assurances given in 1967 and 1972 which had now been totally set aside. The Industrial Development Advisory Board (IDAB) had concluded that the scheme was not viable although a majority had considered that support could nevertheless be justified on social and industrial and balance of payments grounds provided that certain difficult pre-conditions could be met. The arrangements would certainly be severely handled by the Trade and Industry Sub-Committee of the Select Committee on Expenditure, who had already been critical of the Government's support for the motor industry. Coopers and Lybrand had expressed doubts about the arrangements. There was likely to be criticism from the Public Accounts Committee. Assistance would appear wholly unjustified when considered against the background of the report by the Central Policy Review Staff (CPRS). Support of this kind would be unpopular with the Government's supporters because it involved the provision of public funds without obtaining a public stake in the ownership of the company. It would be presented as surrender to a multi-national company. It would destroy the Government's industrial strategy and weaken their policy of controlling public expenditure. It would create a precedent which it would be difficult to escape when faced by other companies, not only those in the car industry, asking for Government support. The decisions already taken on Norton Villiers Triumph would be hard to justify, and damage would be done to the Government's policy for British Leyland because the clear impression would have been created that the Government was always willing to rescue firms in the motor industry however poor the performance of the workforce.

THE SECRETARY OF STATE FOR SCOTLAND said that any decision on Chrysler was bound to be difficult. The alternative to acceptance of the arrangements was to accept a closure which would cause the loss of 55,000 jobs. There would have been no support in the Labour party for that course. A number of improvements had been made to the scheme since it had previously been considered by the Cabinet. Their principal concern had been a lack of commitment on the part of Chrysler Corporation, but the Corporation would now be heavily committed by the guarantees that they would give and by the integration of the United Kingdom company with the rest of their Group. Assurances must be obtained on the way that this integration would be carried out. A further improvement was that the C6 was to be produced at Ryton, which would mean the preservation of another 3,000 jobs directly; moreover the scheme would keep in operation the factories at Linwood, Dunstable and Stoke. The success of the reorganised company would be heavily
dependent on an improvement in labour relations and it would be necessary to obtain agreements from the unions concerned. It was only by improved productivity that the motor industry would prosper; retrenchment of itself did not achieve anything. Nevertheless substantial retrenchment was involved in the arrangements proposed. They would result in a reduction of almost one third in employment by Chrysler (UK) Ltd and a reduction of their motor vehicle production by one half.

THE CHANCELLOR OF THE EXCHEQUER said that he agreed with much that the Secretary of State for Industry had said. In particular support for Chrysler under the arrangements proposed could be very damaging to the Government's industrial policy though Ministers would have to work to minimise that damage. Nevertheless he considered that the Government were committed by the offer which the Cabinet had agreed should be made to the Chrysler Corporation. He had not expected that offer to be accepted, but in the event the Chrysler Corporation had put forward alternative proposals which were in fact more advantageous to us, both financially and in terms of providing continuing employment at Ryton. The result was a substantial improvement on scheme B which the Cabinet had earlier rejected. The Government would meet no part of past losses, and after 1976 would make only a small and diminishing contribution to future losses; the Chrysler Corporation would be guaranteeing £63 million for the United Kingdom company and providing £10 to 12 million to finance production of the C6. The scheme would save 37,000 jobs. The big drawbacks were the potential liability for £50 million in 1976, and the risks of the amount to be underwritten by the Chrysler Corporation. On the assumption that those who would have been redundant but for this scheme would not have obtained further employment for two years and that the Chrysler Corporation did not itself collapse the cost to the Government of giving assistance was less than the cost of the unemployment benefits, tax losses and the proposed redundancy scheme which would be associated with a closure. On balance he considered that the benefits of the scheme outweighed the drawbacks. He was particularly influenced by the damage which the collapse of the Iranian contract would do to the country's standing in the Middle East, the likelihood that it would not be possible to obtain agreement to the imposition of import restrictions on cars even if the closure went ahead, and the damaging precedent which would be created if the supplementary redundancy scheme were introduced. Nevertheless, if the support proposals were adopted the Cabinet should do all that they could to prevent its becoming a precedent. They must also seek to obtain the co-operation of the trades unions on the same lines as had been done at the time of the support of British Leyland. If this were not forthcoming a further crisis could arise very rapidly.

In discussion it was argued on the one hand that an agreement on these terms would be a body-blow to the Government's industrial strategy and to its wider economic policies. Whatever the Government said the settlement would be taken as a precedent which would make it hard to refuse requests for assistance not only from other firms in the motor
industry but from other industries also. Whatever commitment Chrysler might give for the future they could not be forced to continue operation in Britain if they were resolved not to do so. On the other hand it was argued strongly that the new arrangements made much more sense than the original scheme B which the Cabinet had rejected. The new arrangements ensured that the Government would bear no part of the responsibility for past losses, there was a much greater degree of commitment by the Chrysler Corporation both through the provision of guarantees and through the financing of the introduction of the production of the C6. It was also now envisaged that the United Kingdom company would be closely integrated into the rest of the Chrysler group. It was also argued strongly that the disadvantage of accepting the arrangements had to be set against the consequences of allowing closure to go ahead. This would result in 55,000 jobs being lost at a time when the prospects of alternative employment was very bad, and this applied with particular force in West Scotland. The political consequences of such a course would be extremely damaging. As against this it was argued that it was naive to think only in terms of jobs saved at Chrysler: if there were overcapacity in the industry, preservation of Chrysler would simply lead to loss in jobs elsewhere in the car industry, including British Leyland. Attention was also drawn to the balance of payments and benefits which would result from the Iranian contract continuing to be met from this country. It was clear that this could not have been preserved in the event of a closure. The Finance Minister of Iran had indicated within the past day or so that if the Iran contract fell through there might be serious repercussions on United Kingdom/Iranian industrial relations which might spread throughout the Middle East. On the other hand it was pointed out that the Chrysler Corporation would continue the Iranian contract even if Chrysler (UK) collapsed and the reputation of British firms in the Middle East or anywhere else depended primarily on their individual performance. The special redundancy scheme which had been envisaged in the event of the closure would also have damaging consequences as a precedent for other industries which would be avoided if these arrangements were accepted. It was also argued, however, that while the preservation of employment secured by these arrangements was to be welcomed they amounted to an unprecedented subsidy for a foreign-owned company. It would be preferable to require Chrysler to meet all their liabilities and for the Government to acquire the company on a basis which took account of those liabilities.

In further discussion there was general agreement that the co-operation of the trades unions was essential if there were to be any prospect of success for the new arrangements. It would be necessary to obtain their clear agreement both to the principle of the arrangement, to the redundancies involved, to the transfer of work, and also to measures to increase productivity on the lines suggested by IDAB. Production of the C6 model was unlikely to be successful in the long run unless productivity were raised by 25 per cent to the levels already achieved in France. It should be made clear to Chrysler that the Government
support was conditional on an agreement with the unions. Further negotiations with Chrysler would also be necessary to reach agreement on suitable arrangements for sharing the future profits, to obtain satisfactory binding undertakings on the future integration of the United Kingdom company with the rest of the Chrysler Group, and to secure a suitable degree of Government control over the operation of the company. It should also be made clear that provision of assistance would be conditional on the approval of Parliament.

The Cabinet were advised that the support arrangements would need to be notified to the European Commission before they were announced. Although it was not likely that they would refuse to accept the arrangements this could not be taken for granted.

In further discussion it was argued that the presentation of the Government's decision would be made more difficult if it were accompanied by the publication of the CPRS report. On the other hand it was argued strongly that a clear commitment had already been given that the report would be published and the consequences of seeking to avoid publication would be more damaging than going ahead. It could be argued that the action proposed was compatible with the report in that the production of cars by Chrysler would be reduced by 50 per cent as a consequence of the reorganisation.

THE LORD PRESIDENT OF THE COUNCIL, summing up the Cabinet's discussion, said that a large majority of the Cabinet considered, albeit with great reluctance, that the proposals for support of Chrysler should be accepted. Considerations which had weighed with them particularly were the saving of 37,000 jobs out of the 55,000 that would have been lost in a total closure, the avoidance of the need for a special redundancy scheme which would have been a difficult precedent and the consequences of closure for the country's relations with Iran and the rest of the Middle East. The Cabinet considered, however, that a clear agreement would be needed with the trades unions concerned both over the principles of the scheme and over future productivity. The Chrysler Corporation should be informed that the Government accepted the arrangements in principle, but that this was conditional on -

a. a satisfactory agreement with the trades unions concerned;

b. satisfactory binding assurances on the integration of the United Kingdom company with the rest of the Chrysler Group;

c. an agreement on profit sharing arrangements;

d. arrangements for Government control over the operations of the company, such as the right of the Government to nominate directors;
and

e. Parliamentary approval of the provision of assistance.

The Cabinet's decision should be announced to Parliament on Tuesday, 16 December. The announcement should make clear that the Government's support was not open-ended and that creditors should not assume that the Government stood behind the company. The report by the CPRS should be published at the same time as the announcement. An approach should be made to the European Commission under Article 93 of the Treaty of Rome on Monday, 15 December.

The Cabinet -

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

2. Agreed to the proposals for the support of Chrysler set out in C(75) 144 and 145, and that there should be no special redundancy scheme.

3. Invited the Secretary of State for Industry to make an announcement to Parliament on Tuesday, 16 December, and to agree the terms of his statement with the Secretaries of State for Trade, Employment and Scotland, the Chancellor of the Exchequer, the Foreign and Commonwealth Secretary and the Lord President.

4. Invited the Secretary of State for Industry, in consultation with the Secretaries of State for Employment and Scotland, to seek an agreement with the trades unions before the announcement on the lines indicated in the Lord President's summing up.

5. Invited the Secretary of State for Industry, in consultation with the Secretary of State for Scotland, the Paymaster General and the Chancellor of the Duchy of Lancaster to reach an agreement with the Chrysler Corporation on the matters indicated in the Lord President's summing up.

6. Invited the Minister of State for Foreign and Commonwealth Affairs to arrange for a formal approach to be made to the Commission on Monday, 15 December about the proposal for assistance.

7. Invited the Head of the Central Policy Review Staff to arrange for the publication of his report to coincide with the announcement in Parliament.

Cabinet Office
12 December 1975
THE SECRETARY OF STATE FOR TRADE said that the Government were making very large investments in the motor industry. It was essential that they should protect those investments by imposing temporary restrictions on imports of motor cars. The balance of trade in motor cars which had formerly been positive was now in large deficit and import penetration this year was likely to be around 35 per cent. These developments could easily result in the collapse of the motor car industry in this country. He recognised that the Government's freedom of action was limited by its treaty obligations but in his view the introduction of restrictions was entirely compatible with the relevant obligations - Article XIX of the General Agreement on Tariffs and Trade and Article 135 of the Treaty of Accession to the European Economic Communities. The Cabinet had previously agreed to seek approval for the imposition of restrictions if Chrysler (UK) closed. He had always argued that they should also do so in the event of a substantial contraction by Chrysler. Under the arrangements which the Cabinet had just agreed, Chrysler's car production would fall by 50 per cent and there would be a very severe interruption in their production in 1976. The production of Imps would cease at the end of the year, the transfer of Avenger production to Linwood would take at least 6 months as would the start of the assembly of the Alpine. There would thus be no production, except to meet the Iranian contract, for 6 months. The circumstances were accordingly basically the same as they would have been in the event of a closure.

In discussion it was argued that the difficulties facing the British industry were their inability to produce cars rather than their inability to sell in competition with imports. Temporary restrictions would make no difference to this situation. There were stocks of 150,000 imported cars already in the country but no stocks of British cars. Article XIX required that if restrictions were imposed there should be compensatory action in some other areas. The Prime Minister had reached the view, following his discussions in the European Council, that there was no prospect whatever of agreement by the European Commission to an application for approval for import controls on cars. Indeed the President of the Commission had said that approval would not be granted even in the event of complete closure of Chrysler (UK) Ltd.
THE HOME SECRETARY, summing up the discussion, said that it was necessary that the Cabinet reached a decision about import restrictions on cars even though many members had been obliged to leave to fulfil other engagements. The Cabinet had clearly envisaged earlier that a decision would be reached about import restrictions on cars at the same time as the decision on the principle of support for Chrysler, and a majority had then been against import controls if Chrysler (UK) Ltd did not collapse. A majority of the members now present were also agreed that there should be no import restrictions on cars. Of the members who had already left sufficient had indicated to him that they remained opposed to import restrictions on cars to make it clear that a majority of the full Cabinet shared this view. This should therefore be taken as the decision of the Cabinet. If any of those who were in a minority wished to have the matter discussed further when the whole Cabinet was present they should put this request to the Prime Minister. It would not be right for the limited number of members now present to reach decisions on import controls on the other items. A further meeting of Ministers should be held on Monday 15 December so that decisions could be taken in time to allow the approval of the European Commission to be obtained before an announcement during the economic debate on 17 December.

The Cabinet -

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

2. Agreed that the proposal for the imposition of import restrictions on cars should not be pursued.

3. Instructed the Secretary of the Cabinet to arrange for a further meeting of Ministers on Monday 15 December to reach decisions on proposals for import restrictions on other items.

Cabinet Office
12 December 1975