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CABINET

# INDEX

OF

# CABINET CONCLUSIONS

# April–December 1976

(CM (76) 1st–43rd Meetings)

Notes: References to CM (76) Minutes are shown thus—1 (1).

References to CP (76) Memoranda are shown thus—CP 1.

References in italics are to Memoranda not discussed by Cabinet.

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*Cabinet Office,*
*March 1977*

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CM(76) 1st
Conclusions

COPY NO 85

# CABINET

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

TUESDAY 13 APRIL 1976

at 11.00 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and
Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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 Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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

ALSO PRESENT

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr T F Brenchley (Items 3 and 4)
Mr W I McIndoe (Items 1 and 2)
Mr A K H Atkinson

CONTENTS

CHANGE OF ADMINISTRATION

1. THE PRIME MINISTER said that the Cabinet would wish to place on record their sincere gratitude to their former colleagues, notably Mr Short, Mrs Castle, Mr Ross and Mr Mellish, for the services which they had rendered to the Government over a long period. He also extended a warm welcome to new members of the Cabinet and to the Chief Whip who would be invited to all their discussions.

He would be sending to all Ministers the customary memorandum on Questions of Procedure for Ministers. This was based on the version circulated to the previous Administration, but included some minor amendments. He asked all his Cabinet colleagues to read it carefully and to ensure that it was read by all Ministers in their Departments. He wished particularly to emphasise that the rule whereby memoranda for Cabinet and Cabinet Committee meetings had to be circulated at least two working days before their consideration constituted a minimum. It was highly desirable that papers should be circulated well in advance of this minimum period to allow time for full consideration: and he asked his colleagues to do their best to ensure this.

He wished the new Government to work very closely with the Party and Trades Union Congress. There were some aspects of policy on which the views of the majority of the National Executive Committee of the Party differed from those of the Government and it would be important in the coming months to devise ways of resolving or minimising those differences so far as possible. He believed that the Government's standing with the country as a whole was good and that public opinion was in a mood to recognise the difficulties which the country faced and to support appropriate measures to overcome them.

The Cabinet -

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

PARLIAMENTARY AFFAIRS

2. The Cabinet were informed of the business to be taken in the House of Commons in the week beginning 26 April.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the previous evening the House of Commons had passed a resolution disapproving of European Economic Community (EEC) measures on skimmed milk powder and aid for the storage of vegetable proteins. The first of these measures had been formally adopted by the EEC Council and, as part of Community law, was directly applicable in the United Kingdom. The second had not yet been formally adopted by the Council and the Commission might be considering a fresh proposal. Following discussion in the Legislation Committee and soundings by the Whips, the Government had not opposed the resolution which had no effect on the legal basis of the Regulation on skimmed milk powder. He had made it clear in the debate that the effect of this procedure was to allow the House to register its dislike of these measures without calling into question the fact that the Government had committed themselves, in the settlement of Common Agricultural Policy (CAP) prices, to accept them. The Opposition had however claimed that the resolution implied rejection of the measures and that a Government statement was needed to remove the uncertainty. It was therefore necessary to consider how the Government should now proceed.

In discussion it was argued that the Government could not ignore a unanimous vote of the House of Commons. On the other hand, the Government had not exercised a veto on these matters during the CAP price negotiations and it was impossible to reopen the settlement now. Furthermore it was necessary to preserve the position that the onus of decision lay on the Government so long as it could command a Parliamentary majority: and if it could not do the latter a very serious situation arose. Accordingly the Government's response needed most careful consideration. The best course might be to introduce a Motion asking the House to approve the CAP price settlement as a whole: this seemed likely to command a majority. The wording and timing would need careful thought and there was no need to settle the details before the Recess. It was however necessary to reassure the industry that the legal position would remain unchanged.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that the best course would be for the Government to table a Motion after the Recess which would represent the measures in question as part of the settlement of CAP prices which the Government had accepted and seek approval for the latter. The Lord President of the Council, in consultation with the Foreign and Commonwealth Secretary, the Secretary of State for Prices and Consumer Protection, the Minister of Agriculture, Fisheries and Food and the Chief Whip, should consider the terms in which this Motion should be drafted. In

the meantime it was important that the industry should be left in no doubt that the legality of the Regulation on skimmed milk powder was unaffected. It would be necessary, therefore, to make an early statement setting out the legal position and indicating that the Government would bring the matter back to the House in an appropriate way after the Recess.

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 other Ministers concerned, to proceed accordingly.

FOREIGN AFFAIRS
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European Council

3. THE PRIME MINISTER, reporting on the meeting of the European Council in Luxembourg on 1 and 2 April, said that no major decisions were taken, and none should have been expected. The Council should provide an opportunity for informal and private discussions between Heads of Government on broad political developments, and any attempt to reach formal decisions on specific issues should be resisted. Against this background the sour note in the Press, which was based on unrealistic expectations, was unjustified. We had achieved our main objective of ensuring that the Community should consider what could be done about unemployment despite the Federal German Chancellor's reluctance in an election year to support proposals which might require German financial contributions. Work would proceed in preparation for the Tripartite Conference in June or July and for the July meeting of the European Council. By contrast, the French objective of securing a lofty declaration on economic and monetary union had run into the sand.

On direct elections President Giscard had, for tactical reasons, abandoned the French argument for the allocation of seats in proportion to national populations and had instead proposed continuing with the existing numbers of seats allocated to member states. This approach had proved unacceptable to countries with numerous minority parties and Italy had taken the lead in rejecting it. The matter would now be considered further by Foreign Ministers and we would continue to press for greater proportionality in the allocation of seats. It was still the aim to hold direct elections in 1978 though others were now also coming to realise the practical problems involved. It had however been agreed that the election period would run from Thursday to Sunday: and that the Assembly would continue to be officially so described but could be referred to informally as a Parliament. The Government's suggestion of a Select Committee had been well received in the House of Commons: and Cabinet approval for the necessary arrangements would be sought after Easter.

The Tindemans Report had been the subject of a lengthy but inconclusive discussion. The Council had agreed to a very useful declaration in support of our position on Rhodesia; and had also adopted a useful declaration on the Lome Convention. We had stressed the importance of a revision of the Common Fisheries Policy and of the implementation of the Dublin statement on imports of New Zealand butter. Useful informal discussions had also taken place on Southern Africa, detente and defence, the Lebanon, Spain and Portugal.

The Cabinet -

1. Took note of the statement by the Prime Minister.

Rhodesia

THE SECRETARY OF STATE FOR SOCIAL SERVICES reported on the visit he had paid to Tanzania and Mozambique in his former capacity as Minister of State for Foreign and Commonwealth Affairs. He said that his visit had been designed to follow up the statement of Government policy made to the House of Commons on 22 March by the then Foreign and Commonwealth Secretary. His aim had been to ensure a continuing dialogue with President Nyerere of Tanzania and to initiate a dialogue with President Machel of Mozambique. In addition, he had wished to discuss with the latter the question of British aid for Mozambique. Both Presidents had warmly welcomed Mr Callaghan's statement to the House of Commons. Neither of them wanted to see a fight to a finish in Rhodesia and they therefore hoped for a negotiated settlement in due course. At the same time they did not wish to see new peace plans brought forward in the very near future because to do so might cut across the agreement reached by the four Presidents on their joint commitment to armed struggle. As between President Nyerere and President Machel he observed some differences of view, especially with regard to the leadership of the African National Council, with President Nyerere more inclined than President Machel to support Mr Joshua Nkomo. However, President Machel had been quite clear about the dangers of a long drawn out struggle in Rhodesia which would assume an increasingly racial character, with Rhodesia losing its white population and their expertise, just as Mozambique had suffered the loss of its Portuguese experts. He had corrected a misunderstanding on the part of President Machel, who had thought that 85 per cent of our offer of £15 million aid for Mozambieque would be in grant form. The President had welcomed our intention to send an aid team to Mozambique and also welcomed the Commonwealth initiative which had been proposed by the Commonwealth Secretary General, Mr Ramphal.

The prospects in Rhodesia were for a continuing but gradual build-up of guerrilla activity, but he did not expect the conflict to reach major proportions before 1977. For the time being we should refrain from any new efforts but should emphasise our existing proposals. In due course an opportunity for a further British initiative might well arise.

The Cabinet -

2. Took note of the statement by the Secretary of State for Social Services.

COUNTER-INFLATION POLICY

4. THE CHANCELLOR OF THE EXCHEQUER said that the concept which he had outlined in his Budget Speech of additional tax relief conditional on a low pay limit for the next round had been surprisingly well understood and was receiving an encouraging amount of support from the general public. So far as the Trades Union Congress (TUC) were concerned he had so far talked only to their representatives on the National Economic Development Council. They felt it would be very difficult to persuade their Annual Conferences to accept a limit which, if it were to achieve its main objective of a further significant reduction in inflation, would not leave sufficient room to correct major anomalies or restore differentials. On the other hand they did not wish to be held responsible for sacrificing the prospect of additional tax relief, and they broadly accepted the need for general acceptance of a pay policy which would be successful. The further talks which he and his negotiating colleagues would be having with the TUC would need to be completed within about a month since the TUC General Council would need to decide in early May what recommendations to make to the probable Conference of Union Executives later that month. Among the arguments for limiting pay increases to 3 per cent were the prospect of a rather greater increase in world prices in 1977, and some upward drift in actual earnings above that allowed for during the operation of the £6 pay limit due to factors such as mobility and overtime rather than evasion. If therefore we wished to cut inflation by half we must reduce the rate of earnings increase by rather more than half to allow for drift and price increases. Despite the very considerable difficulties he hoped that the TUC would recognise the advantage of a low pay limit to protect employment and prices and that agreement would be reached on a figure near to 3 per cent. The first reactions of the TUC to his proposals, coupled with the strikes at the British Leyland Motor Corporation, had caused renewed pressure on sterling, but there had been greater stability during the past two days: a nervous and volatile market must however be anticipated pending agreement on a satisfactory pay limit with the TUC.

In discussion it was pointed out that the TUC had been put in a very difficult position by the way the 3 per cent proposal had been presented in the Budget Speech and their hostility should not be underrated. It was they who would have to deliver support for a successful second year of pay policy, and the initial favourable public reaction was not necessarily relevant. It was also a great pity that the approach which the TUC themselves were evolving could not have been considered before the Government put forward its own ideas: some features of that approach, for example a possible choice between a flat and percentage increase, might have considerable merit in providing the flexibility which would be needed. Furthermore the attack on inflation might be better served by a less

ambitious target which would command the full support of the TUC rather than one which secured at best only their grudging acceptance. Nevertheless the link made between taxation and pay, though raising some interesting constitutional questions, could be seen as a valuable development in free collective bargaining and in open government: and it might be helped if the negotiations were broadened to include matters of social policy as well as pay. On the other hand it was argued that the Chancellor of the Exchequer had necessarily had to specify the pay limit which would be needed if the rate of inflation were to be reduced to that of our competitors; and many of these had also been making progress in their own counter-inflationary measures. The Government must now strive to the maximum to achieve a limit of 3 per cent. Nothing would do more to improve industrial confidence. We were still paying for the pent-up inflation of the past: and although good progress was being made we could not afford to link the pay limit to price increases at a time when depreciation was itself affecting the Retail Price Index. The right course for the Government was to continue to urge the advantages of its proposals in a conciliatory spirit. There was every reason to expect a responsible reaction from the TUC and it was relevant that wider issues of policy had already been taken into consideration in the Budget which had met 85 per cent of the TUC's recommendations. Any further concessions should be reserved for later consideration when they might be needed to clinch final agreement on the pay limit. The present economic situation was perilous and would remain so for the next 18 months. We could not therefore afford to relax, but should rather intensify our efforts.

THE PRIME MINISTER, summing up the discussion, said that inflation was being reduced but could again be stimulated by the prospective upturn in the economy. Further progress in reducing inflation was therefore essential in this critical year. In their continuing negotiations with the TUC, the Chancellor of the Exchequer and the other Ministers directly concerned would take into account the points which had been made in discussion. The important thing was to give the Chancellor of the Exchequer the maximum support in developing in a non-provocative way the general concept he had outlined in his Budget Speech about the relationship between incomes and taxation. Ministers should therefore take every opportunity of this in speeches. They should also stress the advantages his proposals would have in maintaining employment, reducing inflation, encouraging investment and maintaining our competitive position as a nation. The benefits of stability should be contrasted with the dire consequences of further inflation. Backbenchers should also be encouraged to take up the theme. Suitable background material would be circulated by the Parliamentary Secretary to the Privy Council Office.

The Cabinet -

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

Cabinet Office

13 April 1976

CM(76) 2nd Conclusions

COPY NO 85

# CABINET

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

THURSDAY 29 APRIL 1976

at 11.15 am

PRESENT

The Rt Hon James Callaghan MP
*Prime Minister*

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Items 3 and 4)

SECRETARIAT

| | |
|---|---|
| Sir John Hunt | |
| Mr G R Denman | (Items 1 and 2) |
| Mr J A Hamilton | (Item 4) |
| Mr T F Brenchley | (Item 2) |
| Mr W I McIndoe | (Item 3) |
| Mr J A Marshall | (Items 3 and 4) |
| Mr A D Gordon-Brown | (Item 1) |
| Mr A K H Atkinson | (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.

Committee of Selection

THE LORD PRESIDENT OF THE COUNCIL said that, following the decision by the Committee of Selection, on the Chairman's casting vote, that the composition of new Standing Committees should not be changed following Mr Stonehouse's crossing the Floor of the House, the Opposition had tabled an Early Day Motion calling upon the Committee to withdraw the appointments to Standing Committees it had just made and henceforth to appoint Members in equal numbers from the Government and Opposition Parties. The matter was entirely one for the Committee of Selection, and neither he nor the Chief Whip had brought any pressure to bear. The Committee's decision had been based on the composition of the House in according with Standing Orders and there was a reputable case to be made for it. The figures published in some newspapers were misleading, in that the figure of 314 Labour Members excluded Mr Robertson and Mr Sillars whereas the 316 Members of other Parties included the two Northern Ireland Members who regularly voted with the Government. The Opposition had behaved badly in tabling a Motion before the Chairman of the Committee of Selection had an opportunity to report to the House the reasons for the Committee's decision, and he had accordingly proposed that there should be a debate on the adjournment on Monday 5 May following the Second Reading of the Finance Bill. This would provide an opportunity for the Chairman to explain the decision, and for the House to discuss the matter. He hoped that this would take some of the steam out of the situation and that the Opposition would then reconsider their position. If, however, they decided not to withdraw their Early Day Motion, time would have to be found to debate this Motion after 10.00 pm on Tuesday 4 May.

In the course of a brief discussion the point was made that, where there had been a majority in the House on the Second Reading of a Government Bill, there was justification for a majority of Government supporters on the Standing Committee for that Bill.

The Cabinet -

1. Took note.

Select Committee on Direct Elections

THE PRIME MINISTER recalled that in the debate on 29 and 30 March the House of Commons had received favourably the Government's offer to set up a Select Committee on Direct Elections to the European Assembly which would work in parallel with the discussions in the Council of Ministers. He had accordingly discussed the arrangements with the Ministers principally concerned. Their conclusion was that a Commons Committee would be preferable to a joint committee of both Houses which had been suggested in the House of Lords debate on 29 March. The issues were rightly regarded by Government supporters as matters primarily for the House of Commons and it was now expected that the House of Lords would not press for a Select Committee of their own. There would be advantage in appointing a Minister to the Committee. It could however be embarrassing for the Government if he were Chairman and this might also be unwelcome to the House. The right course would be for a Foreign and Commonwealth Office Minister to be a member during the Committee's consideration of matters which were for Community decision, such as the allocation of seats among member states; and that he should be replaced by a Home Office Minister when the Committee came to deal with matters for national decision such as electoral arrangements. A satisfactory agreement had been reached with the Opposition on the composition of the Committee. The terms of reference proposed for the Committee, which should be established without delay, were:

> "To consider the arrangements requiring action by Parliament and by the European Community following the commitment to proceed to direct elections to the European Assembly".

The Cabinet -

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

FOREIGN AFFAIRS

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Rhodesia

Previous Reference: CM(76) 1st Conclusions, Minute 3

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that his meeting with the United States Secretary of State, Dr Kissinger, on 24 April had been most useful. The discussion had centred largely on Africa on which Dr Kissinger had been genuinely anxious to learn our views. He had in particular stressed to Dr Kissinger the need to make it clear to the White Rhodesians that they could not count on salvation from the United States and also to understand the African attitude to a possible East/West confrontation over Southern Africa. Dr Kissinger had taken substantial account of what had been said to him; and his subsequent major speech in Lusaka had made a major impact by emphasising to the Africans that they were not backed only by the Soviet Union but had the firm support of the West.

THE PRIME MINISTER said that Dr Kissinger's response was encouraging. We should however need to ensure that he was not over-impressed by the appointment of African Chiefs to Ministerial office in Rhodesia: these Chiefs were merely paid officials.

The Cabinet -

1. Took note.

Iceland

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION AND PAYMASTER GENERAL said that a group of Ministers under her chairmanship had given further consideration to the Icelandic fisheries dispute. The chances of the Norwegian mediation leading to any acceptable outcome were low. The Icelandic Government had not yet commented on the Norwegian draft of a possible agreement, and it was ominous that Ministers in the Coalition Government in Reykjavik had decided that they would need to consult their Parties before doing so. The Minister of State for Foreign and Commonwealth Affairs, Mr Hattersley, had made it clear to the Norwegian Foreign Minister, Mr Frydenlund, that several features of the Norwegian draft were unsatisfactory to us, and we would stand on this position until it was seen whether there would be an Icelandic response. The matter was likely to be discussed at the North Atlantic Treaty Organisation Council meeting beginning on 20 May: but the British case was unlikely to get much support there, especially following approval of the United States Bill to extend their fisheries limits to 200 miles from 1 March 1977. The situation on the fishing grounds off Iceland was not very satisfactory: the trawlers were making poor catches. The Ministerial group had decided to permit the trawlers to fish outside a line 15 miles instead of 20 miles off the Icelandic coast, except where there were conservation areas which we were continuing to respect. Ministers had however not been

able to agree on whether two Designated Fishing Areas (DFAs) should be established under naval protection instead of one. The Minister of Agriculture, Fisheries and Food had favoured this, but the Secretary of State for Defence had seen operational difficulties. The Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland would be seeing industry representatives the following week and if the industry then pressed for two DFAs despite the difficulties this would entail in respect of protection, she would have to ask for the matter to be considered by the Defence and Oversea Policy Committee.

The Cabinet -

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

CHILD BENEFIT

3. The Cabinet had before them memoranda by the Secretary of State for Social Services (CP(76) 2 and 3) on the Child Benefit (CB) rate and on transitional arrangements for non-resident children, and Notes by the Secretary of State for Social Services and the Chief Secretary, Treasury (CP(76) 4) and by the Chancellor of the Exchequer (CP(76) 5) to which were annexed respectively a factual paper by officials and a memorandum by the Chief Secretary, Treasury, on the Child Benefit rate.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he foresaw great political difficulty for the Government if the CB rate, to be introduced in April 1977, did not at the least maintain the real level of support for families which had obtained when the Government came into office in 1974. He was aware of the serious public expenditure implications of his proposal for the rate, when coupled with the recommendation of the Social Services Committee to arrange a transitional period for Child Tax Allowances (CTAs) for non-resident children at an initial cost to the contingency reserve of £45 million. He was in full sympathy with this recommendation but had no doubt that the main priority was to settle a satisfactory starting rate for CB. This meant fixing a rate which would take account of prospective increases in the cost of living, including the rise in school meal charges and the consequences of phasing out food subsidies, since for operational reasons the rate, once fixed, could not be altered until the autumn of 1977. A rate which did not maintain the real level of support would increase the difficulty of negotiating a satisfactory pay policy with the Trades Union Congress (TUC) and would be likely to harden their resistance to the phasing out of food subsidies. The rate proposed by the Chief Secretary, Treasury would cut the real level of support in 1977 for most two-parent families while giving a premium to large and one-parent families. The premium classes of family would not correlate with poor families as a whole, and the administration of the premium would be wasteful of manpower and could well lead to serious industrial trouble with departmental staff at a time when strenuous efforts were being made to reduce manpower levels. He strongly recommended therefore that the rate should be a flat rate and that it should be fixed at a level of not less than £2.70 which would allow some margin for cost of living increases but still fall well short of the rate of support enjoyed by a three-child family under the Conservative Government in 1971.

THE CHIEF SECRETARY, TREASURY, said that the question was how best to use the very limited resources which were available. The memorandum (CP(76) 6) which the Cabinet were to consider next was very relevant to this. The advantage of a premium was that it directed resources, on a selective basis, to where they were most needed. There was nothing novel in the idea of a

premium: it had been introduced before for Family Allowances. Although its administration would involve extra staff costs, these would be insignificant compared with the cost of a flat rate which made every family better off. A rate of £2.70, as proposed by the Secretary of State for Social Services, would involve a claim of £141 million on the contingency reserve and, if combined with the concession to non-resident children, £185 million. He was strongly opposed to the concession to non-resident children: the Government had made no commitment to introduce it; it was impossible to check the widespread abuse of CTAs for non-resident children: and the cost of a transitional scheme would be inordinately high. In considering the appropriate level for CB rate, it was wrong to make comparisons with the level of support under the Conservative Government without taking account of the present Government's measures to increase family allowances - the first increase for 7 years - and CTAs. Moreover the CB scheme itself offered considerable attractions in providing for first children and in transferring the value of the benefit of CTAs from husbands to wives. A rate of £2.45, with a 50p premium for children of one-parent and large families, would make all families better off than at present. He therefore urged the Cabinet not to go beyond this, although he would be prepared to accept a rate of £2.50 plus premium if the concession for non-resident children were dropped.

Non-Resident Children

In discussion of transitional arrangements for non-resident children there was considerable support for the recommendation by the Social Services Committee that CTAs should be continued for a transitional period in respect of non-resident children. The issue was a difficult one and the concession could create anomalies and a degree of resentment, for example in the comparison of wage packets for the same job or if it were to be decided that the parents of students not on awards should receive no compensation for the loss of CTAs. But without such a concession the parents of non-resident children would be left substantially worse off, in contrast to what was intended for the public as a whole. This would be strongly resented by the Asians who were the community mainly concerned and least able to suffer the disadvantage, and would be likely to arouse strong opposition in Parliament. Although many fraudulent claims were undoubtedly made, it would be wrong to penalise the Asian community at large on this account. Moreover the withdrawal of CTAs, without a transitional period, might well increase the pressures for immigrant children to be brought into the country (not only from Asia but also from the Irish Republic) in greater numbers than the present machinery or the provision of schools and other services could cater for. For the same reason a transitional period limited to two years would be likely to create strong pressures for early entry; and estimates of the numbers involved ranged from 100,000 to as many as 200,000.

Child Benefit Rate

In discussion of the rate, it was suggested that the Cabinet needed to consider carefully how the introduction of the CB scheme, with the innovations which it provided for in respect of first children and the transfer of resources from husbands to wives, could best serve the Government's present overall objectives. A major reform of this kind did not need to be justified by reference to equivalence with what preceded it; on the other hand, it was important that the implications of particular rates should be more clearly seen and weighed. In particular, it would be desirable to know what effect particular rates would have on the eligibility of poorer families for means-tested benefits, including free school meals and rent and rates rebates. There would be little point in adopting a rate which involved taking back with one hand what was given with the other. A major problem confronting the Government was the claims on the contingency reserve. A substantial part of the reserve for 1977-78, a year ahead, was already committed; and it had to be recognised that any commitment entered into now could well be at the expense of some other desirable project later on. If a CB rate which was politically acceptable could not be settled without making an excessive claim on the contingency reserve at the present time, there might be a case for deferring the introduction of the new CB scheme.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet recognised the major importance of arriving at a satisfactory conclusion on the complex issues which had been presented to them and agreed that further time was required to study these issues. They were strongly inclined to accept the recommendation for a transitional period of CTAs for non-resident children and the public expenditure implications of this would be a factor in their further consideration of a CB rate. In the meantime, however, the Secretary of State for Social Services and the Chief Secretary, Treasury, should obtain further information on the effect of possible rates on eligibility for means-tested benefits and, if necessary, circulate a short paper on the questions which had been raised about this in discussion. The Cabinet would resume their discussion at their next meeting.

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 Secretary, Treasury, to proceed accordingly.

PUBLIC EXPENDITURE PROGRESS REPORT

4. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 6) to which was attached a report by the Chief Secretary on the claims which were being made on the contingency reserve.

THE CHANCELLOR OF THE EXCHEQUER said that, while the report did not justify the view that public expenditure was out of control, the question of whether or not it remained under control would depend crucially on the Cabinet's response to the situation now revealed. The main reason for the present weakness of sterling, apart from the uncertainty over a further agreement on pay restraint with the Trades Union Congress (TUC), was the high level of the public sector borrowing requirement (PSBR), which at £12,000 million in the current financial year was £1,500 million more than the previous year and £3,500 million more than in 1974-75. No other country had a comparable imbalance between its public revenue and expenditure, and it was essential that the PSBR should not increase if overseas confidence was to be maintained. The plan embodied in the recent Public Expenditure White Paper (Cmnd 6393) assumed that expenditure in 1977-78 should be at roughly the same level as in 1976-77, so that the increase in revenue during 1977-78 would bring about a reduction in the PSBR. There was a serious danger that foreign confidence would collapse if the Government allowed the public expenditure limits which they had set themselves to be exceeded; and in this connection it was relevant that they had undertaken to provide quarterly reports on the progress of public expenditure plans to the House of Commons Select Committee on Expenditure. All of this meant that the Cabinet must resist to the maximum possible extent any additional claims on the contingency reserve, and where claims had to be admitted offsetting savings must be found. It might well be that, in the negotiations with the TUC over pay, the Government would have to concede something on such related issues as unemployment, prices and social benefits which would increase expenditure: when these were announced it would be essential to be able to point to offsetting savings elsewhere.

THE CHIEF SECRETARY, TREASURY, said that of the 1976-77 contingency reserve only some £92-£142 million was left not subject to firm or agreed bids - and less than one month of the year had gone. If all the other claims on the reserve were accepted, then public expenditure would be out of control. He suggested that it would be easier to resist the new claims than to find offsetting savings. In paragraph 12 of his report he had put forward a series of proposals, none of which (apart from that relating to child benefit, which had been discussed earlier in the meeting) asked the responsible Ministers to do more than go back and examine ways of reducing to a minimum, or improving control over, planned expenditure.

In discussion it was suggested that the way in which the figures were presented was unhelpful, since claims arising from long term policies were not distinguished from those arising from the deliberate adoption of short term counter-cyclical measures. Against this it was pointed out that, when the Government were considering how they should keep within their own stated expenditure limits, the purpose and origin of the spending was of no consequence since the expenditure still had to be scored and would contribute towards the PSBR. A further difficulty was that where a particular expenditure proposal gave rise to some partially offsetting savings (eg. by reducing expenditure on unemployment benefit) those savings were not taken into account in registering the charge against the contingency reserve. It was recognised that there were difficult problems in presenting public expenditure figures satisfactorily, but it was pointed out that for child benefit a considerable methodological advance had been made in deciding to treat the cost for public expenditure purposes as net of the savings which would arise from the abolition of child tax allowances. Public expenditure figures alone could never tell a complete story when social policies were being pursued through the tax system. The problem of attaining a satisfactory presentation was under study, but was sensible of no simple solution.

On housing expenditure, it was pointed out that, because present Government policy was that housebuilding by local authorities should be subject to no restraint, the public expenditure commitment was open-ended. At present it was forecast that this would lead to an additional claim on the contingency reserve in the current financial year of £200 million, and although it would be difficult, consideration should be given to offsetting this, possibly by reductions in expenditure on municipalisation and local authority lending. Furthermore, in view of the threat such a policy represented to spending plans in later years, an urgent study should be put in hand to consider ways in which housebuilding in the public sector might be brought under control. The possibilities had yet to be discussed by the interested Departments and Ministers would need time to consider such a change of policy. It was noted that, having recently announced an increase in expenditure on house improvements by local authorities in order to assist the construction industry, it would look wholly inconsistent to cut expenditure on municipalisation and local authority lending.

THE PRIME MINISTER, summing up the discussion, said that the position presented in the Chief Secretary's report was a serious one, and it demonstrated how necessary it was for Cabinet to have regular reports of this kind. With most of the 1976-77 contingency reserve subject to firm commitment or firm

bids, and with nearly one-third of the 1977-78 Reserve already firmly committed, the Government's published plans were clearly coming under severe pressure; but he thought that all Ministers recognised and accepted the need for keeping expenditure within the published totals which the Government had accepted. There were presentational difficulties about public expenditure figures, and no-one would wish to use figures which were misleading; but, while those concerned would no doubt continue to study ways of improving the presentation, the problems before the Cabinet would not yield simply to changes in presentation: their solution required an approach along the lines proposed in the Chief Secretary's report. No immediate decisions should be taken at the present meeting. Ministers would need time to reflect upon the position, and upon the proposals which had been made, in consultation with the Chief Secretary as necessary, against the background of their collective responsibility for constraining additional claims for expenditure to what could be accommodated within the contingency reserve. The Cabinet would then consider the Chief Secretary's proposals again at a further meeting.

The Cabinet -

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

Cabinet Office

29 April 1976

CM(76) 3rd
Conclusions

COPY NO 85

# CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 6 MAY 1976
at 11.00 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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

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

The Rt Hon Eric Varley MP
Secretary of State for Industry
(Items 3 and 4)

The Rt Hon Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Items 2-4)

SECRETARIAT

| | |
|---|---|
| Sir John Hunt | |
| Mr G R Denman | (Item 1) |
| Mr W I McIndoe | (Items 2-4) |
| Mr A D Gordon-Brown | (Item 1) |
| Mr A K H Atkinson | (Item 1) |

CONTENTS

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 in discussion that the Opposition had asked for a debate on the Government's agreement on pay with the Trades Union Congress (TUC), and the question of arranging a debate would need consideration. It might be difficult to justify not arranging any Parliamentary debate on this subject until after the TUC Special Conference in June, although there was no spare Government time available; but it was always open to the Opposition to choose this subject for a Supply Day, although in fact they were probably not very keen on a debate.

Committee of Selection

Previous Reference: CM(76) 2nd Conclusions, Minute 1

THE LORD PRESIDENT OF THE COUNCIL said that an agreement had been reached with the Conservative Party, and he hoped that agreement would also be reached with the other Parties in the course of the day. A Motion would then be put down which would go a long way towards giving the Opposition what they wanted but would still leave the Committee of Selection with considerable flexibility. The new arrangements would apply to Standing Committees now being set up, including that on the Health Services Bill. The Opposition would now have no case for going back on the agreement they had made about the time by which Bills at present in Standing Committee should be reported.

In discussion, the suggestion was made that consideration should be given to changing Standing Orders to embody the principle that the Standing Committee on each Bill should reflect the majority for that Bill on Second Reading rather than the composition of the House. This would insure against a Bill which had received a majority in the House being cut to ribbons in Standing Committee. On the other hand it was pointed out that such a change would give the Opposition greater incentive to vote against the Second Readings of Bills; and Opposition Parties which had voted for Bills on Second Reading might claim places on the Government side in Standing Committee, but would not necessarily support the Government when voting on amendments. In any event the Opposition Parties would not favour such a change, and could not be forced to accept it in present Parliamentary circumstances.

THE PRIME MINISTER, summing up a brief discussion, said that the Motion proposed by the Lord President of the Council was well worded and should be supported.

The Cabinet -

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

Select Committee on Direct Elections

Previous Reference: CM(76) 2nd Conclusions, Minute 1

THE LORD PRESIDENT OF THE COUNCIL reported that objections had been raised by some leading opponents of direct elections to the terms of reference which had been approved by the Cabinet at their meeting on 29 April. They wished the terms of reference to refer to "proposals" for direct elections as well as "arrangements"; and to "any" commitment rather than "the" commitment to proceed to such elections, since this was in their view a commitment of the Government and not of the House.

THE PRIME MINISTER, summing up a brief discussion, said that the Government had intended to allow the Committee to consider the "proposals" as well as the "arrangements" for direct elections and there was no objection to making this clear. But there could be no going back on the commitment to direct elections which had been accepted by the Government and by most Members of Parliament. There seemed little advantage in a reference to the obligation in Article 138 of the Treaty of Rome, but the Lord President could offer a reference to "the Government's commitment". It was not certain this would avoid a debate which might be pressed to a vote but the Select Committee was after all intended to help Parliament and a decision whether to appoint it could be left to the House.

The Cabinet -

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

PRESS LEAK

2. THE PRIME MINISTER said that the was much concerned by the appearance in The Times that morning of an account of the Cabinet's previous discussion of the Child Benefit rate and transitional arrangements for non-resident children. The article showed a depth of knowledge which could scarcely have been obtained by casual questioning or intelligent guess-work on the part of the writer. He was not disposed to ascribe this leak to a deliberate attempt to bring pressure to bear on the Cabinet in their further discussion of these issues, but there had at the minimum been looseness in the observance of the instructions set out in paragraphs 28-30 of the note on Questions of Procedure for Ministers (C(PR)(76) 1). These emphasised the damaging effect of leaks of this kind on the reputation of the Government and on the efficiency of administration; and it was important to ensure that there was no recurrence. He asked all members of the Cabinet to see that the circulation of Cabinet memoranda and minutes did not extend beyond junior Ministers and advisers with a genuine need to know and to impress on all concerned the prime importance of avoiding premature or unauthorised disclosure of their proceedings.

The Cabinet -

Took note, with approval, of the Prime Minister's statement.

CHILD BENEFIT

Previous Reference: CM(76) 2nd Conclusions, Minute 3

3. The Cabinet resumed their discussion of the Child Benefit rate and transitional arrangements for non-resident children. Their discussion and the conclusions reached are recorded separately.

NORTHERN IRELAND

4. THE SECRETARY OF STATE FOR NORTHERN IRELAND informed the Cabinet that in the early hours of the morning eight men of the Special Air Service in three cars had accidentally entered the Irish Republic near the village of Clontygora. Two of the men were dressed in the uniform of a Parachute Regiment and the remaining six were in civilian clothes. All were armed. The men had been apprehended by Irish Republic police and were being held in the custody of the Garda at Dundalk. Efforts were being made to secure their early release. They had been on their way to man an observation post and their entry into the Republic had been accidental. Nevertheless the incident was an embarrassing one and if the men were not quickly released it could give rise to considerable controversy and possibly to damage to cross-Border co-operation.

THE PRIME MINISTER said that he would speak to the Taoiseach by telephone in order to put the matter in perspective and try to secure the early release of the men.

The Cabinet -

Took note.

Cabinet Office

6 May 1976

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COPY NO 35

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 3rd Conclusions, Minute 3

Thursday 6 May 1976 at 11.00 am

CHILD BENEFIT

Previous Reference: CM(76) 2nd Conclusions, Minute 3

The Cabinet had before them a further memorandum by the Secretary of State for Social Services (CP(76) 7) and a note by the Chancellor of the Exchequer (CP(76) 8), covering a further memorandum by the Chief Secretary, Treasury on the Child Benefit (CB) rate; and a memorandum by the Secretary of State for Social Services (CP(76) 3) on transitional arrangements for non-resident children.

THE PRIME MINISTER said that the Cabinet's last discussion had been useful in identifying the main political and other issues involved. He had since received an excellent report from the Whip's Office which had created fresh doubts in his own mind about the political implications of the timing of the introduction of the CB scheme and on which he would ask the Chief Whip to report to the Cabinet.

THE CHIEF WHIP said that the advice given in the report by the Whips was that to introduce the CB scheme in April 1977 would have grave political consequences which were not foreseen when the Bill went through the House of Commons. A basic effect of the scheme was to increase the amount of tax which people would pay, in return for a tax-free benefit for the mothers of families. The point had been made at the Cabinet's last discussion that the public might need to be educated to accept the merits of this transfer of cash from husband to wife; there was little doubt of this and considerable doubt whether the process of education would be successful, at any rate in the time now available. The scheme would therefore be likely to increase the Government's difficulties in the implementation of their economic strategy; it would be introduced, and the increase in liability to tax would begin, in the middle of the next round of pay negotiations and against the background of a successful negotiation of pay policy for the current year which rested heavily, in terms of

its public acceptability, on agreed tax cuts. It would, in his view, be wrong to allow anticipated criticism by pressure groups to prevent the Government from deferring the scheme if the interests of their economic strategy as a whole suggested that this was desirable.

In discussion, there was considerable support for the view that the public were ill-prepared for the distributional effects of the CB schemes as between husband and wife and that these would be likely to arouse particularly strong opposition amongst miners and similar sections of the working community. This would be particularly unfortunate if the scheme were introduced during the next round of the renegotiation of pay agreements. Any deferment, however, would probably have to be for two years in order to avoid a situation in which the CB scheme, with its higher liability to tax, was introduced at the same time as the new pension scheme, with its higher rates of contribution for employees. The point was also made that a deferment of the scheme and, consequentially, the general retention of Child Tax Allowances (CTAs) for a further period, would avoid some of the political difficulties which would be inherent in the retention of CTAs, for a transitional period, in respect of non-resident children only. On the other hand, it was argued that there would be great administrative and operational complications about such a late decision to defer the introduction of the CB scheme: the printing of new order books was now complete except for the rate and the same books would have to be over-printed and used for any extension of the Family Allowances (FAM) scheme; the process of recruiting extra staff to handle the transition to the CB scheme was already under way and there might be considerable political and local employment difficulties in reversing this. More importantly, given the commitments made in two general elections and the specific assurances which had been given in Parliament last summer by the then Secretary of State for Social Services, which were carried through in the Public Expenditure White Paper published in February, the Government's credibility would be severely damaged by a decision to defer. The introduction of the scheme had effectively been postponed once already, and there would be growing doubts whether the Government intended to proceed with it at all. Against this it was argued that a postponement of the scheme, if carefully presented, would enhance the Government's credibility in terms of their determination to restrain public expenditure and tackle the problems of inflation. It would, however, be necessary to consider possible measures which might be taken to soften the criticisms which would inevitably be made. These might include a decision to extend FAM to first children and some action on school meal charges; it would in any case be necessary to arrange for the continuation of the Child Interim Benefit Scheme (CHIB) for one-parent families. The full

implications and costs of possible measures of this kind should be examined as a matter of urgency. The suggestion was also made that before the Government reached any decision to defer the CB scheme, there would be a case for full and frank discussions with the trades unions and other interests concerned about its implications in terms of the Government's economic strategy. On the other hand, it was argued that the Government would lose a good deal of credibility if they were seen to be unable to reach a decision on a matter which had been under consideration for so long: full discussions with all the interests concerned would certainly be necessary, but as part of the Government's presentation of their decision. Some doubt was expressed whether a decision to extend FAM to first children, apart from the cost involved (which would be as much as £150 million unless the concession were to be made at the expense of the existing rates for other children) would in fact be likely to help in reducing criticism of a decision to defer the CB scheme; it might, on the contrary, strengthen the belief that the Government were discarding the scheme altogether.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that there was, regrettably, little real public understanding as yet of the consequences of the CB scheme and that there might be a sharp political reaction against it. It was therefore clearly necessary to weigh very carefully the political disadvantages of introducing the scheme at the present time against the tangible benefits which it would be likely to provide for families as a whole. These benefits would be relatively small on any scale of public expenditure which the Cabinet would be likely to regard, in present circumstances, as a reasonable claim on the Contingency Reserve. A decision to defer introduction of the CB scheme, however, would require very careful presentation; and before reaching a final decision, the Cabinet would wish to be fully informed of the financial, administrative and operational implications of a deferment, including the implications for Civil Service manpower. Officials should therefore urgently prepare a paper, for circulation to the Cabinet, which would cover these matters and also examine, on the lines indicated in the Cabinet's discussion, possible compensating measures, and their cost, which might be combined with any decision to defer the introduction of the CB scheme. The paper should also set out the relative advantages and disadvantages of a one-year and a two-year postponement. The Cabinet would resume their discussion at the first convenient opportunity.

The Cabinet -

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

2. Instructed the Secretary of the Cabinet to arrange for the urgent preparation of a paper by officials on the lines indicated in the summing up.

Cabinet Office

7 May 1976

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CM(76) 4th
Conclusions

COPY NO 85

# CABINET

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

THURSDAY 13 MAY 1976

at 10.30 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary Treasury (Items 3 and 4)

The Rt Hon Stanley Orme MP
Minister of State, Department of Health and Social Security (Item 3)

SECRETARIAT

Sir John Hunt
Mr G R Denman (Item 2)
Mr J A Hamilton (Item 3)
Mr T F Brenchley (Item 2)
Mr J A Marshall (Items 3 and 4)
Mr A D Gordon-Brown (Item 1)
Mr A K H Atkinson (Item 1)
Mr H J Blanks (Item 4)

CONTENTS

PARLIAMENTARY AFFAIRS

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

In discussion of the Supply Day debate on 18 May, on an Opposition Motion on the sale of Council and New Town houses to tenants, it was noted that the Ministers concerned were giving consideration to proposals which would give those living in council houses a status comparable to that of an owner-occupier but without the permanent ownership passing from the Council. No changes in Government policy would be announced in the debate on 18 May; but it was important that the Government speakers should hold the present position in such a way as not to rule out the possibility of future developments of this kind in the Government's policy on council houses.

FOREIGN AFFAIRS

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China

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that there had been no external sign of tension visible during his visit to China. Everyone to whom he had spoken had been word perfect in expounding the new line on Teng and internal policies. Nevertheless under the surface there must be a great deal of tension. Chairman Mao was now 82 and a desperate struggle for the succession to him must be expected. The Soviet Union might be tempted in such circumstances to try to influence events. His own belief was that the moderates would come out on top; if they did not there would be a serious risk of disintegration. He had found the new Chinese Prime Minister, Hua Kuo-Feng, deliberate and shrewd, but his previous experience had been entirely with domestic policy. On foreign affairs he had stuck very closely to a brief, repeating almost word for word what had already been said by the Chinese Foreign Minister, Ch'iao Kuan-Hua. There had been no change whatsoever in the Chinese exposition of foreign affairs themes. They regarded war as inevitable, though perhaps after a little delay, and saw the Soviet Union as the source of that war. They had stressed the Soviet threat to Western Europe and had recommended a "tit for tat" response by Western Europe to Soviet pressures, though it had never become clear what they meant by that phrase. He had tried to reassure them about Britain's commitment to Western Europe and about the solidarity of the North Atlantic Treaty Organisation. On foreign trade they had said that there would be no change of policy, only certain minor adjustments such as on the allocation of oil for domestic consumption. They had denied that there was any risk of invasion of South Korea by the North Koreans. On Indo-China they were clearly nervous about Soviet intentions and worried by the degree of Soviet influence. He judged that the visit had been successful: the local experts, including Her Majesty's Ambassador, rated the cordiality of his reception as above average. His hosts had expressed the hope that the Prime Minister would visit China soon.

Japan

THE FOREIGN AND COMMONWEALTH SECRETARY said that relations between the United Kingdom and Japan were very good. The only sensitive item in the discussions he had had there had been on Japanese exports, especially of cars. He had said repeatedly that the Japanese motor industry must reach agreement with the British industry on an orderly policy for the British market and had found all his hearers sympathetic on the point. The Japanese too had said that they would welcome a visit from the Prime Minister. Clearly that was not possible this year, but he thought that at a later date a visit by the Prime Minister to both China and Japan would be valuable.

The Cabinet -

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

CIVIL SERVICE MANPOWER

3. The Cabinet had before them a memorandum by the Lord Privy Seal (CP(76) 9) and a memorandum by the Central Policy Review Staff (CP(76) 10) on cutting Civil Service manpower.

THE LORD PRIVY SEAL said that since the Government took office in March 1974 there had been an increase of almost 50,000 in the number of civil servants, and on current projections by 1978 the increase would have risen to over 90,000, representing a rise of 13 per cent in four years. This upward trend showed no signs of flattening. The Cabinet had agreed the previous December, as part of the public expenditure cuts, that £140 million should be saved in 1978-79 by a reduction in the Civil Service; and he had been invited to consult his colleagues on how this might be done. His paper set out the results of his consultations. The figure of £140 million had been adopted as being a reduction of 5 per cent on the forecast expenditure in 1978-79; but since December large new manpower requirements, totalling £63 million, had arisen, partly from new policy commitments - eg in the Department of Employment and as a result of devolution - and partly from increasing work - eg in the Inland Revenue, where over the next two years an increase of 21 per cent would be needed. Unless offsetting savings could be found, this additional cost would be a charge on the contingency reserve. The question which Cabinet had to consider first was whether their target should be a saving of £140 million, or £200 million, or some figure between.

A saving of £140 million would mean that by 1978-79 the Civil Service would be no smaller than it was today. If the aim were to get the Civil Service down to the level of the preceding summer (around 730,000) then the target would need to be £200 million. Even to obtain savings of £140 million was a formidable task. The omission of the Ministry of Defence, and the fact that some civil servants were paid from fees charged for their services, so that cutting their numbers saved little money, meant that in practice a cut, not of 5 per cent, but of something closer to 9 per cent was needed over the remainder of the field. For Departments who had already borne the brunt of the "formula" cuts of the 1975 exercise, this would be particularly severe - for the Civil Service Department it would mean a total cut of 13 per cent. Even if all the proposals in Annexes A, B and C to his paper were adopted they would only save £180 million, and given the policy difficulties attaching to some of the proposals he was clear that to go above £140 million would make it essential to look

for a further contribution from the Ministry of Defence, and from other Departments who were not planning to reduce staff below their present levels. The Central Policy Review Staff had suggested that he should undertake bilateral discussions with individual spending Ministers; but he feared that these might well prove fruitless, since the proposals had already been fully discussed in correspondence and at official level. In his view such discussions should be based on firm acceptance in principle by Cabinet of the proposals in Annexes A and B, which between them would save £125 million, or 38,000 staff, which, together with assumed savings of £7 million from the Foreign and Commonwealth Office and savings from fringe bodies, certain Post Office charges, and such consequential costs as accommodation, would make up the balance of the £140 million. This however assumed that Vehicle Excise Duty would be abolished, saving some 3,000 posts and £12 million, a proposal to which the Chancellor of the Exchequer took grave exception. If, nevertheless, the proposals in Annexes A and B could be agreed in principle, the bilateral discussions could concentrate on how individual Ministers might make good any particular savings in Annexes A and B to which they were opposed.

In the longer term it should be possible to look closely at administration, particularly in areas where manpower was used intensively, but that was no substitute for early decisions on the makeup of savings of £140 million, a number of which would require legislation in the next year. In his view £140 million was the minimum target Cabinet should adopt in view of the public commitment which had been given and he recommended the acceptance of this target and of the proposals in Annexes A and B to his paper, with discretion for Ministers to replace proposals there by alternative savings of equivalent value in the required timescale.

In discussion of the target which should be accepted, it was observed that Cabinet were well aware, when they accepted the figure of £140 million in December, that it was not a soft option and could only be obtained by making policy changes. Ministers now faced the difficulty of giving substance to this decision, and the Government's credibility would turn upon being able to stand by what was now a public commitment. There were pressures for even larger cuts in public expenditure, but these could be warded off as long as the Government could demonstrate that it was successfully keeping within its own planned limits. It was important to keep a sense of perspective about the growth of the Civil Service which had taken, and was still taking, place. There was a long-term secular trend towards growth in the public sector, and in many ways this was something which a Labour Government should welcome. On occasions the growth might be too rapid and would need to be slowed down; but there was little doubt that for a variety of reasons - eg the

implications for Goverment of increasing international obligations in numerous fields - there would in ten years' time be a larger Civil Service than now. It would be interesting in this respect to compare the experience of other advanced countries. The Government had accepted that it would make a cut of £140 million in manpower costs, but there could be no question of going higher than that figure, which had the advantage that it would involve practically no compulsory redundancy, and could largely be achieved by natural wastage.

In discussion it was argued that Annexes A and B to the Lord Privy Seal's paper could not be accepted as they stood. Quite apart from Departmental objections to particular proposals - eg the abolition of Vehicle Excise Duty - it would be necessary to consider carefully the legislative consequences of the proposals listed. Annex A would require seven separate legislative provisions, and Annex B needed much the same, some of the requirements being highly controversial. It was most important, before the Government accepted the proposals en bloc, that the legislative implications should be drawn up and carefully considered. It was arguable that some of the proposals would have an adverse effect on the Government's relations with the Trades Union Congress, which would make them very difficult to accept. More broadly, it was argued that the proposals needed to be examined to see how far, taken together, they fitted into the Government's wider priorities - would they, for example, reflect the extent to which the Government wished to give priority to industrial strategy over social policy? Furthermore, a distinction needed to be made between savings to be had from changes in policy, and those which could be obtained through continuing to administer existing policies, but at lower standards of service.

In further discussion, it was suggested that there should be scope for savings in the reform of some of the working methods of the Civil Service. There was a marked tendency to spend too much time on drafting and writing where telephone calls would suffice; Ministers were heavily over-briefed; too many people at too many levels in a Department expressed their views on paper when it would be more efficient for a discussion to be held and a single view to be put forward; and papers originating lower down in a Department went through too many hands on the way to Ministers. Nor was this solely a matter of servicing Ministers - where in fact no large savings were likely to be had - but was to be found also in lower levels of the administrative machine. One problem was that there had in recent years been a considerable increase in the service which Government Departments were expected to give to the House of Commons - eg through the increase in Parliamentary Questions, including priority Written Questions asking for detailed statistical information at short notice, and through the practice of Members of Parliament in sending constituents' letters and expecting a detailed statement of

policy from the Department on the question at issue. Gratuitous work for other civil servants was often created by the practice of sending copies of such letters to other Departments when the questions raised impinged, even if only marginally, upon the latter's responsibilities. It was suggested that there was no reason why, without sacrificing Ministerial accountability to Parliament, Members of Parliament should not have easy access by telephone to Departments to obtain information they needed, without going through the elaborate procedure of writing to the Minister. It was further noted that the preparation of legislation and seeing it through all stages in both Houses of Parliament took up considerable Civil Service manpower, and savings might be achieved by legislative reforms which would obviate the need to put all minor legislative matters through the full set of Parliamentary hoops.

In the course of continued discussion, the following main points were made -

a. More attention should be paid at the time when Ministers were considering a draft Bill to the implications it had for Civil Service manpower. Arrangements already existed to draw Ministers' attention to these implications, but too little account had been taken of them. It might be valuable to examine the legislation of the last two years to see where the additional requirements had been created, and indeed to look at the Labour Party's own most recent programme with an eye to the additional manpower needs it would involve. As an example of existing difficulties, it was noted that there was pressure from the Labour Party for greater progress with the implementation of planning agreements; but such greater progress would inevitably involve increased staff,

b. If savings of £140 million were to be found, then changes both in policy and in administration would be necessary. Savings in administration were difficult to pin down, were to some extent already allowed for in the figures which had been given by the Lord Privy Seal, and would be particularly difficult to obtain within the required timescale. However, if any administrative savings were to be achieved by 1978-79, the necessary action - eg thinning out the messengerial and lower clerical grades - needed to be started without delay.

c. Of all the policy changes that had been proposed by far the most effective was the abolition of Vehicle Excise Duty: it was difficult to see how the required savings could be achieved without this change of policy.

d. While it would be a matter of importance to consult the Staff Side as closely as possible on the exercise, at least one Minister had found his Departmental Staff Side to be wholly unrealistic in their approach and unco-operative in their attitude to the achievement of cuts of the kind needed.

e. If lower standards of administration were to be adopted, involving a poorer service to the public - eg more delays in planning appeals - it would be necessary to explain to Parliament what was involved and the reason why such a lowering of service was necessary.

f. The reason for the forecast increase in Inland Revenue staff was that, whereas it had previously been assumed that tax allowances would be fully revalorised, that assumption had now been changed. As a result, more people were expected to be liable to tax, and more people liable to higher rate tax, than previously. All of this involved more staff. There might however be some degree of revalorisation over the next two years, so that the forecast increase in staff might be more pessimistic than was justified. The truth was that the only way to obtain major savings in Departments like the Inland Revenue and the Department of Health and Social Security was to consider whether the job could be done in some totally different way from that now prevailing. This would require a considerable study and would be unlikely to save any money by 1978.

g. It could be argued that the increase in the size of the Civil Service was part of a long-term secular trend associated with an increasing amount of intervention by Governments. There were obvious risks in trying to reverse that trend particularly when, as in the present exercise, what had started as a reasonably modest target of a 5 per cent reduction had now moved to 9 per cent.

h. While the level of efficiency within the Civil Service might not be as high as it could be, there was no reason to think that it was any worse than the standard prevailing in the private sector. It would be important, therefore, not to single out the Civil Service when what was needed was an improvement in efficiency in public and private sectors.

THE PRIME MINISTER, summing up the discussion, said that there was general agreement that the target should be the saving of £140 million which had been agreed the previous December and subsequently published in the Public Expenditure White Paper. This was not a commitment from which the Government could resile. The

proposals in Annexes A, B and C of CP(76) 9 needed further and more detailed consideration however. The Lord Privy Seal, reinforced by the reaffirmation by Cabinet that they must achieve savings of £140 million in 1978-79, should therefore have bilateral discussions with each of the spending Ministers and should establish what each Minister would agree from Annexes A, B or C as a contribution to the collectively reaffirmed target. Members of the Cabinet should give this their personal consideration and be as forthcoming as possible. In addition the Lord Privy Seal, in the light of these discussions, should prepare a list of disagreed items which Cabinet would need to consider further to make up the full savings. When they next considered the matter the Cabinet should also have before them an agreed statement of the legislative implications of all of the agreed and disagreed proposals so that the Parliamentary difficulties could be properly weighed. There was general agreement that it would be important to involve the National Staff Side and Departmental Whitley Councils in consideration of the reductions; and at some point it might be desirable for him to see the National Staff Side himself. The Cabinet would also need to consider further the question of improving working methods in the Civil Service: this was something which Ministers might be able themselves to set in hand, perhaps by deputing a junior Minister to lead a study in each Department, but first they needed the advice of the Lord Privy Seal on the best approach to the problem.

The Cabinet -

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

2. Reaffirmed their decision of the previous December that there should be a reduction in the forecast number of civil servants in 1978-79 sufficient to secure savings of £140 million.

3. Invited the Lord Privy Seal to undertake bilateral discussions with the spending Ministers concerned with a view to securing the maximum possible agreement based on the proposals in Annexes A, B and C to CP(76) 9; and to report back to Cabinet urgently showing how far agreement had been reached and indicating the disagreed proposals which would need to be considered further by Cabinet to achieve the required total saving.

4. Invited the Lord Privy Seal, in consultation with the Lord President of the Council, at the same time as he reported on the results of his bilateral discussions, to circulate to Cabinet a note on the legislative implications of the proposals, both agreed and disagreed, for making up the £140 million saving.

5. Invited the Lord Privy Seal to circulate guidance on the way in which an exercise designed to improve working methods in the Civil Service might best be handled.

FIFTH ROUND OF OFFSHORE PETROLEUM PRODUCTION LICENSING

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British National Oil Corporation Contribution to Costs

4. The Cabinet considered a memorandum by the Secretary of State for Energy (CP(76) 12) about the manner in which the British National Oil Corporation (BNOC) should finance its participation in the exploration and development arising from the next round of offshore petroleum production licences.

THE SECRETARY OF STATE FOR ENERGY said that he would in the very near future have to put before Parliament the regulations authorising the fifth round of North Sea oil licensing if they were to be approved before the Summer Recess. It was important that the round should be a success: if it were not, it would call in question the credibility of the Government's oil policy, which had been designed to remedy the defects of the fourth round conducted by the Conservative Administration. All those interested in the subject would be watching very carefully to see how effectively this had been done. The fifth round was needed to give a new impetus to and preserve employment in the supporting industry, and if oil could be found off the coast of Wales and South West England it would help to counteract the Scottish Nationalist problem.

The Government had already announced that BNOC would be a participant in future licences from the outset. The issue on which he was seeking a decision from the Cabinet was: should BNOC invest money in exploration and development under these licences from the beginning, or defer its financial contribution until this could be met from the revenues arising from oil produced? He felt strongly that the former course was the right one. If the Corporation refused to put in its share of the costs, it would become simply a sleeping partner, and its credibility as a State oil company would be destroyed. By taking a financial stake on the other hand, it would get all the information it needed and in addition would be able to influence the placing of orders with the supplying industry. The British Gas Corporation (BGC) and the National Coal Board (NCB) had already contributed their share under existing licences on this basis. He feared that if BNOC did not follow the same course, companies might be deterred from applying for licences and the round would be a failure. It seemed anomalous that British Petroleum Ltd could borrow abroad to finance investment in the North Sea, but BNOC could not do likewise simply because its borrowings would increase the public sector borrowing requirement. It was important to distinguish between the two categories of investment in prospect. The first was exploration, for which the sum involved was estimated at only £50 million in the period 1977-83, and only £12 million in 1976-79. The really large expenditure would not be incurred until development was undertaken, which as Appendix 3 to his paper showed would not be before 1980. Ideally he would have liked to obtain agreement that BNOC would normally contribute its 51 per cent share of investment under the fifth round licences. The argument had been

advanced that this was unnecessary, and that a seat on the operating committee and the right terms of contract (including a "carried interest" provision under which investment would be deferred to be met from eventual production revenues) would give BNOC all the information it needed. He did not accept this, but was prepared to compromise and agree that the contribution to development costs should be decided for each case on its merits. But he felt that if BNOC were to preserve its credibility, it must contribute its £12 million to exploration costs over the following three years.

THE CHIEF SECRETARY, TREASURY, said he agreed that it was important that the fifth round should be a success. But he did not accept that deferring BNOC's financial contribution would put the Government in a weak position. The negotiation of participation in existing licences for BNOC had started with the expectation that the Corporation would contribute financially, but now this was not proposed and it had not prevented the negotiation of satisfactory terms. In the next round the Corporation would not be trying to break into an existing licence, but companies would be required to accept its participation from the outset. No commercial company which found itself in such a strong negotiating position would expect to invest money earlier than necessary. He agreed that it was unfortunate that borrowing abroad by BNOC scored as part of the public sector borrowing requirement, but it would be impossible to change the existing conventions until the country's financial position as a whole was stronger. If the Government gave the impression at the present time that they might be ready to contribute their share of the huge costs which would eventually arise on development, as they arose, the knowledge of these potential obligations would create very serious problems for Britain's credit abroad. He therefore opposed the suggestion that the Government should normally expect to pay its share of development costs, and believed they should not contribute to exploration since the sums involved would not really enhance BNOC's standing, and it would be difficult to contribute to exploration without implying that such contributions might continue once the development stage was reached.

In discussion it was argued that BNOC's credibility would not be improved by an announcement that it would contribute to the relatively small costs of exploration, but thereafter would have only a carried interest in development. The BNOC were in a strong position and should drive as hard a bargain as they could. The concept of a "round" created an impression that all the blocks offered were homogeneous. In fact they would be a mixture - as previous rounds had been - of some which were virtual goldmines and very attractive to the companies and others which were thought to have very poor prospects. Hence it might be better to negotiate the sharing of exploration costs as well as development, case by case.

On the other hand it was argued that a contribution to exploration costs would stimulate drilling in new areas and yield worthwhile political benefits. The BNOC had been set up with the idea of making it eventually a fully integrated oil company, and it would be difficult to sustain this impression if in its initial negotiations it was put into an inferior position to that of the BGC and NCB. Moreover, the view of Lord Kearton must carry weight. The cost had to be seen against the background of the balance of payments benefits expected from North Sea oil: in the current year they were expected to amount to £900 million and by 1980 to £3,000 million. Once exploration had revealed the presence of oil, companies would find it much easier to raise finance for development of the fields.

THE PRIME MINISTER, summing up the discussion, said that the decision was the more difficult because of the magnitude of the public sector deficit. However, the majority of the Cabinet felt that the compromise proposed by the Secretary of State for Energy was the right course to adopt They agreed therefore that the BNOC should be authorised, as necessary, to meet its share of exploration costs as they arose, but that it should be left open for decision case by case whether the Corporation should do the same for development costs or defer them to be met out of revenue with an appropriate rate of interest. The Secretary of State for Energy should draft a statement announcing this decision, in consultation with the Chancellor of the Duchy of Lancaster and the Chief Secretary, Treasury.

The Cabinet -

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

Cabinet Office

13 May 1976

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CM(76) 5th Conclusions

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# CABINET

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

TUESDAY 18 MAY 1976

at 11.15 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot 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 Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

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

SECRETARIAT

Sir John Hunt
Mr W I McIndoe (Item 1)
Mr J A Marshall (Item 2)
Mr A D Gordon-Brown (Item 1)
Mr C J Farrow (Item 2)

CONTENTS

LEGISLATIVE PROGRAMME 1976-77

1. The Cabinet considered a memorandum by the Lord President of the Council (CP(76) 13) containing proposals for the Government's legislative programme in the 1976-77 Session of Parliament.

THE LORD PRESIDENT OF THE COUNCIL said that there would be unusually severe constraints next Session on the number of Bills which could be fitted in, owing to the amount of time the Devolution Bill was likely to require, which might be as much as half the available time on the Floor of the House of Commons or even more. He was considering whether this Bill could be split and whether any of the Committee Stage in the Commons could be taken upstairs but he was not hopeful of success. Time must also be allowed for an appreciable number of Essential and Contingent Bills. Accordingly his paper proposed that next Session's programme should be described as "provisional" and that the Bills in it should be grouped into three orders of priority. The first priority group comprised very important Bills which were almost certain to be introduced; the second priority group comprised Bills with a reasonable chance of introduction; and the Bills in the third priority group would not have much chance. The Government would be doing very well to get through all the Bills in the first and second groups.

In discussion of the proposed short paving Bill on Industrial Democracy it was pointed out that the Government had made a firm commitment to legislate on this subject in 1976-77. Failure to do so would invite a charge of breach of faith. The Trades Union Congress representatives on the Bullock Committee were working in the hope that it would report in time for substantive legislation to follow in 1976-77: a paving Bill could if necessary be drafted before the Committee had reported. The development of industrial democracy should not be frozen while waiting for the Bullock Report and industrial democracy legislation would help over devolution, as another aspect of the Government's programme for the promotion of democracy. On the other hand it was argued that to introduce a paving Bill, which could do no more than lay down very general obligations of little practical effect, would fall far short of what the Government had promised: and could risk prejudging decisions on the Bullock Report. The only industrial democracy legislation worth introducing would be a really substantial Bill, and the better course would be to aim at introducing such a Bill before the end of next Session and giving it a Second Reading, and then proceeding with its enactment the Session after. Whichever course was followed, an undertaking to introduce industrial democracy legislation should be contained in The Queen's Speech.

In discussion of each Department's individual Bills, the following main points were made.

Civil Service Department/ Treasury

The Miscellaneous Financial and Administrative Provisions Bill, which would contain provisions required to achieve manpower savings in the Civil Service, might merit first priority. The Cabinet had not finally decided, however, on the need for or practicability of this legislation.

Department of Education and Science

The most important provisions of the Education (Miscellaneous Provisions) Bill would overcome the difficulty that although there was money which could be made available for financial assistance to trade unions for their training programmes, and for new training courses at technical colleges, there was no means of making direct grants for such courses in the public sector of education. The Secretary of State for Employment, however, had powers relating to the payment of fees for courses, and the possibility of making use of these powers should be examined.

Department of Energy

The Coal Industry Bill was an important measure which might, in effect, become politically essential.

Department of the Environment

There was a strong case for giving high priority to legislation on Drink and Driving, to implement the Blennerhasset Report. This Bill would be very short and could be available for introduction in the House of Lords at the beginning of the Session. The Bill on Homelessness would transfer responsibilities to housing authorities without providing them with additional resources; this would entail a change in their priorities and the reallocation of their resources accordingly.

Department of Health and Social Security

The Social Security (Amendment) Bill would save £50 million in 1977-78 and would have to be introduced at the very beginning of the Session. There had been no adverse reaction to the promise of this legislation made in the public expenditure White Paper, and there now seemed a good chance that it would obtain the necessary support in the House of Commons. The Occupational Pensions Bill would introduce industrial democracy into the running of pension schemes, and deserved high priority.

Home Office

The Conspiracy and Criminal Law Reform and Criminal Justice Bills were both expected to be introduced in the House of Lords early in the Session, and the question arose whether they could be combined, provided that this would not result in a Bill which was too large and covered too many disparate subjects.

Department of Industry

The Shipbuilding (Redundancy Payments) Bill would be very short and would enable a redundancy scheme to be introduced comparable to the best schemes in other industries; but it would not be volunteered to the unions, who had been told nothing of this plan. Discussions on industrial democracy in the Post Office were taking place between the Board, the Post Office unions and the Government, and might lead by the end of the year to conclusions which would require legislation; the Post Office (Amendment) Bill would, however, be quite separate from the general legislation on industrial democracy.

Department of Prices and Consumer Protection

The Bill on the Regulation of Estate Agency in the Reserve category now had a stronger case for inclusion in the programme following the House of Lords decision that a prospective purchaser of a house had no legal protection against loss of a deposit paid to a house agent. It was hoped to complete the current Weights and Measures Bill this Session, but if this were not practicable this Bill would have to be reintroduced next Session because it was required by 1978.

Department of Trade

The Patents Bill, which could be ready for introduction in the House of Lords before Christmas, and the Merchant Shipping Bill, a very deserving measure, might both merit promotion.

In general discussion the point was made that the lists of Bills included six Borrowing Powers Bills and three Independence Bills, and it would be worth giving serious consideration to the possibility of combination. On the other hand the result would be larger and possibly more contentious Bills, and the handling of such Bills in Parliament would involve a considerable number of Ministers from separate Departments.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that next Session's programme category should be described as "provisional", and should be grouped into three orders of priority. Within the first priority group, the Government's legislation on industrial democracy would be of major political importance; and The Queen's Speech on the opening of the next Session should reaffirm

in clear terms their commitment to introduce this legislation as soon as possible after the Bullock Committee had reported. It was not yet possible, however, to decide whether to pursue the proposal for a short paving Bill next Session, if the main legislation on industrial democracy could not be ready in time for enactment before the 1977-78 Session. Meanwhile a Bill on industrial democracy should remain in the first priority list in the provisional programme. The Homelessness and Housing Subsidies Bill, the Conspiracy and Criminal Law Reform Bill, the Shipbuilding (Redundancy Payments) Bill and the Post Office Act (Amendment) Bill should all also remain in the first priority list. The Home Secretary and the Lord Chancellor would consider whether the need for a separate Criminal Justice Bill could be avoided by combining the most important provisions of this Bill with the Conspiracy and Criminal Law Reform Bill. The Secretary of State for Industry would consider whether the Post Office Act (Amendment) Bill could be combined with the contingent Post Office (Borrowing) Bill should the latter become essential. The Social Security (Amendment) Bill should be added to the first priority list, on the understanding that its introduction at the start of next Session would depend upon an assessment at the time of whether it could be got through the House of Commons. All the other Bills in the second priority list in the Lord President of the Council's paper should remain in that list, though the Occupational Pensions and Patents Bills had claims for promotion. The question which Bills should be publicly promised next Session would have to be decided when the terms of The Queen's Speech were being settled. All the Bills in the third priority list should remain in that list, but the Miscellaneous Administrative and Financial Provisions Bill might need to be promoted after the Cabinet had reached decisions on Civil Service manpower savings. The Education (Miscellaneous Provisions) Bill should be added to the third priority list, and the Secretary of State for Education and Science should consider, in consultation with the Secretary of State for Employment, whether the provisions relating to payment of grants for training could be included in the Industrial Training (Amendment) Bill. It was not yet possible to take decisions on the introduction or timing of legislation on drink and driving. The Bills in the categories Essential, Contingent, Reserve, Scottish Grand Committee and Other should be as listed in the appendices to the Lord President of the Council's paper (subject to the promotion of the Education (Miscellaneous Provisions) Bill). The responsible Ministers should now proceed with the necessary work on those Bills which would be or might be introduced 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.

STEEL INDUSTRY
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Shotton

2. The Cabinet considered memoranda by the Chancellor of the Exchequer (CP(76) 11) and by the Secretary of State for Industry (CP(76) 17) on a proposal by the British Steel Corporation (BSC) that steel-making at Shotton should cease in 1980-81.

THE CHANCELLOR OF THE EXCHEQUER said that since coming to office in 1974 the Government had been reviewing the closures involved in BSC's modernisation programme. The related issues of the proposed closure of steel-making at Shotton and the expansion of Port Talbot were very difficult. Economic arguments pointed in one direction, social and political considerations in another. The issues had been defined in discussion in the Ministerial Committee on Economic and Industrial Policy (EI). Shotton had a good record of achievements in steel production, but the steel-making plant was now obsolescent. The issue was where to site the replacement capacity. BSC proposed that the iron and steel-making plant and hot rolling facilities at Shotton should be closed in 1980-81 and that replacement capacity should be built at Port Talbot, expanding output there from the present 3 million tons per annum (mtpa) to 5.7 mtpa. Shotton would continue coke production and finishing operations. This course, Option I, was part of BSC's basic strategy of concentrating output into a small number of large plants at coastal sites. It had been supported by the majority of the members at EI. An alternative course, Option II, involved building a new steel-making plant at Shotton with a capacity of 2.25 mtpa and to modernise other parts of that plant, while Port Talbot's capacity would be increased only marginally, from 3 to 3.3 mtpa. A third course, Option III, would have meant the full development of Port Talbot as envisaged in Option I combined with the construction of a new steel plant at Shotton, but with less modernisation of the other facilities, so that the resultant capacity at Shotton would be limited to 1.8 mtpa. Under all three options there would need to be large-scale modernisation of facilities at Port Talbot.

The majority of the members of EI had favoured Option I because it promised much lower production costs and substantially higher productivity. It would in fact result in productivity at Port Talbot equal to that in a comparable Japanese plant. The cost of production at Port Talbot would be 13 per cent higher under Option II. If BSC passed on this higher cost it would damage the competitiveness of the tin plate industry and the motor industry; but if they had to absorb the higher cost themselves this would in effect require a subsidy from the taxpayer. Furthermore, if Option II were carried out further heavy investment would probably be needed before long. The economic argument in support of Option II rested on the view that the cost comparisons which had been put forward tookinadequate account of the extent to which labour relations at Shotton were better than those at Port Talbot - though even allowing for that Port Talbot would still

have a 3 per cent advantage over Shotton in average production cost. Option II was supported principally by the social and political considerations. Under either Option I or Option II 2,600 jobs would be lost at Shotton in the period 1980-82. If Option I were chosen a further 4,400 jobs, direct and indirect, would be lost over the period 1980-84. The Shotton area already had high unemployment and there were few alternative job opportunities. It was near to Merseyside where unemployment was very serious. Option III, for which no strong case could be made out, would involve the same number of redundancies as Option II, but the first 1,000 of these would arise earlier; it would create more production capacity than prospective demand would warrant; and would be strongly opposed in Scotland because this additional capacity would be regarded as delaying the development of Hunterston.

After taking full account of all the indirect costs of unemployment he did not regard it as possible to substantiate a case for new investment at Shotton and considered the economic case for Option I overwhelming. He recommended that the Cabinet should decide on this course but that the Secretaries of State for Industry and for Wales should then consult informally with the Chairman-designate of BSC, Sir Charles Villiers, who would be assuming office in September. If he favoured Option II the Government should consider the case again. If he supported Option I the decision should be announced as soon as possible. The Secretaries of State for Industry and for Wales should however make proposals to EI for measures which might be taken to attract alternative jobs to the Shotton area which might be included in the announcement. If there were to be any substantial delay in announcing the decision on the issue as a whole he recommended that immediate approval should be given for that part of the modernisation at Port Talbot which was common to all the options.

THE SECRETARY OF STATE FOR INDUSTRY recalled that the Government had undertaken to review BSC's programme, which had been approved by the previous Government, because they considered that inadequate regard had been paid to social factors. The major part of the review had been completed the previous year and this meant that particular attention would now be focused on the decision on Shotton. Since 1974 the social problems had become more acute. At that time unemployment at Shotton had been lower than at Port Talbot - now it was higher. He accepted that the economic analysis pointed to siting new capacity at Port Talbot, though he thought the arguments less strong than the Chancellor of the Exchequer had suggested. It would mean that 20 per cent of British steel-making capacity would be at one site, Port Talbot, and this involved risks. Cost comparisons assumed that the manning levels at Port Talbot could be reduced. While progress had been made towards this end, and an agreement concluded with the unions, it was in very general

terms and there must be doubts about how far it could be relied upon. He therefore favoured Option II. The new 2.25 mtpa plant at Shotton would be both modern and efficient. Under Option I, 7,000 jobs would be lost. Unemployment at Shotton was already 7.9 per cent and the prospects in the area not at all good. Of the other two major employers in the area, Courtaulds was completing the closure of one of its plants and there was no prospect of expansion at Hawker Siddeley. The area was close to Merseyside where unemployment was already on a disastrous scale and there was serious concern about other major employers. If he thought it were possible to attract 7,000 jobs to the area he would support Option I, but he considered that it would be very difficult to attract even 2,600. Account also had to be given to political considerations. There were marginal seats in North Wales and the Welsh Nationalists already held Caernarvon and Merionethshire. Closure of Shotton would cause serious damage to the Government's prospects. There would be no help from the steel trades unions whose interests were divided and the Welsh Trades Union Congress, who had made representations in favour of continuing steel production at Shotton might well take a stand against the closure. In his view it was not necessary to take a decision immediately. He believed that the right course was to ask Sir Charles Villiers to take a fresh look. The present Chairman, Sir Monty Finniston, had a closed mind but others in the BSC had doubts about his policy. In the meantime the Government should authorise the new hot strip mill and continuous casting equipment at Port Talbot which were common to both options. Consideration could also be given to approval of new coke ovens though a decision on the blast furnace would have to wait for the decision on the steel-making plant.

THE LORD PRESIDENT OF THE COUNCIL said that he had proposed Option III because in his opinion it was impossible to exaggerate the catastrophe which would be caused by the closure of Shotton. The social and political consequences would be incalculable. The plant had excellent management and workers. They had waged a brilliant campaign to preserve their plant. If it were closed the odium would fall on the Government and this would be exploited by the Government's opponents. At the same time there was a very strong case for the full development of Port Talbot. There was already strong expectation in the area that this would be approved and there would be serious reactions if expectations were upset. Development could not be held back by doubts about labour relations which had been improved. Given the very strong case for continuing steel production at Shotton and for the full expansion at Port Talbot he had endeavoured to see how both could be achieved. The work force at Shotton, who would of course prefer the 2.25 mtpa scheme envisaged in Option II, had nevertheless proposed a smaller development, to 1.8 mtpa, which would be much cheaper - costing only £90 million, a

sum which could be recovered in three or four years. It was true that this would involve an increase of BSC's total capacity but in his view if the economy expanded as the Government hoped, this capacity would be needed. It was argued that an increase in capacity in Wales would cause difficulty in Scotland, but it was not reasonable to suggest that such a small increase would call in question the very large, long-term plans for Hunterston. In any case it was difficult to have confidence in BSC's forecasts and it would be unwise to rely on Port Talbot's rapidly achieving BSC's planned output of 5.75 mtpa. There was a strong case for the 1.8 million ton development at Shotton, in addition to the full development of Port Talbot, as an insurance against the possibility of events not working out as planned. In the past it had been necessary to import steel in times of boom and there was a very grave danger that if Shotton were closed the decision would soon be regretted.

In discussion it was argued on the one hand that there was a very strong case for Option I. On the figures available the economic arguments were of overwhelming strength. If the Government, owning the whole industry, were unable to base its decisions in the national interest on such clear economic grounds the whole basis of public ownership was called in question. Failure to develop Port Talbot would put in jeopardy 10,000 jobs in the tin plate industry in Ebbw Vale, Trostre and Velindre which required high quality and low cost steel sheet. There would also be a danger of the motor industry either being damaged or being forced to import. It was imperative that the BSC should be competitive and to achieve this it needed a major improvement in productivity. This was offered by Option I. At present 14,000 workers at Port Talbot produced 3 million tons of steel. If Option I was carried out 12,000 workers would produce 5.7 million tons. The trade unions had concluded a manning agreement for this expansion in the terms which management sought. It was however necessary to treat the economic comparisons, all of which derived from figures produced by BSC, with some reserve. To proceed with development of both Welsh plants, as in Option III, would simply be to solve the problems of Wales at the expense of Scotland. A large programme of steel closures had been agreed in Scotland on the basis of an assurance by the previous Prime Minister that the next major development - in the BSC's next strategy - would be at Hunterston. This project was of greater significance to Scotland than was the future of Shotton to Wales. Option I was therefore to be preferred.

On the other hand it was argued strongly that Option I would result in a social disaster. Few if any areas in the country were as dependent on one employer as Shotton and the prospects of attracting alternative jobs were poor. There had been many instances where management had been over-impressed by the theoretical possibilities of large-scale new developments which had not been achieved in practice. The

overriding requirement of British industry was regularity and reliability in supply, and this could not be promised by a scheme which would concentrate output in a small number of very large plants. It would be wrong to throw away the advantage of a contented and reliable labour force at Shotton. Particular doubt had to be attached to forecasts by the BSC whose estimates had frequently proved wrong in the past. On all these grounds, Option II was the better course.

In further discussion it was argued that Sir Monty Finniston had not had an open mind about the arguments involved in this admittedly difficult decision, and had identified the closure of Shotton with the successful exercise of his own authority. On so important a decision the views of Sir Charles Villiers, who would take over the chairmanship in September, were needed. There was, therefore, a case for delaying the main decision until his views were known, all options being put to him, together with their significance for Hunterston. It would not, however, be reasonable to expect him to give his view until after he had taken up his post.

THE PRIME MINISTER, summing up the discussion, said that there was a consensus of opinion that it would be inadvisable to reach a decision without consultation with the Chairman-designate of BSC. The Secretary of State for Industry, in consultation with the Secretary of State for Wales, should arrange for informal consultations to be held with Sir Charles Villiers with a view to his giving his own view of the options which were open. This, however, he could hardly do until after he had taken office in September. The Cabinet were agreed that, without waiting for the outcome of these consultations, immediate approval should be given to that part of the modernisation programme for Port Talbot which was common to all the options under consideration.

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 Wales, to arrange for informal consultation with the Chairman-designate of the British Steel Corporation with a view to his giving his own view of the options.

3. Agreed that the modernisation of Port Talbot required under all the options considered in CP(76) 11 should be authorised as soon as possible.

Cabinet Office
18 May 1976

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CM(76) 6th
Conclusions

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# CABINET

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

THURSDAY 20 MAY 1976

at 10.00 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

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

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

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

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

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Items 3 and 4)

SECRETARIAT

| | |
|---|---|
| Sir John Hunt | |
| Mr G R Denman | (Item 1) |
| Mr W I McIndoe | (Items 1 - 3) |
| Mr J A Marshall | (Items 3 and 4) |
| Mr A D Gordon-Brown | (Items 1 and 2) |
| Mr C J Farrow | (Items 3 and 4) |

CONTENTS

PARLIAMENTARY AFFAIRS

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

Select Committee on Cyprus

THE PRIME MINISTER said that consideration would need to be given to the Government's reaction to the recently published report of the Select Committee on Cyprus. This report was misleading and biased, and in a number of respects inaccurate. It might therefore be best not to resist pressure for a debate but to take advantage of one to rebut the report.

In discussion general agreement was expressed with the need for a debate. The selection for this Committee of members open to strong constitutency pressures was a matter of some concern. A debate would also help to establish the right relationship between Select Committees and the House of Commons as a whole.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that time should be found for a short debate after the Recess. A Government motion should be tabled in terms which would ensure that it was carried.

The Cabinet -

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

[RAT]IFICATION OF [TH]E INTERNATIONAL [COV]ENANTS ON [HUM]AN RIGHTS: [IND]EPENDENT [SC]HOOLS

2. The Cabinet had before them a memorandum by the Home Secretary (CP(76) 14) on the question whether the United Kingdom, on ratifying the International Covenants on Human Rights, should make a reservation retaining the option of abolishing independent schools.

THE HOME SECRETARY said that the Home Affairs Committee had agreed that the United Kingdom should now ratify these Covenants. There were strong policy grounds for this course, despite the difficulties which would be caused for some Departments. The Committee had not been able to agree whether the Government should make a specific reservation to safeguard the right at some time in the future completely to abolish private education. Paragraph 3 of Article 13 of the Covenant on Economic, Social and Cultural Rights required States Parties to have respect for the liberty of parents to choose for their children schools other than those established by the public authorities; and paragraph 4 said that no part of the Article should be construed so as to interfere with the liberty of individuals and bodies to establish and direct educational institutions. It was proposed that the reservation, if made, should read: "The Government of the United Kingdom reserve the right to restrict to the public authorities the power to establish and conduct schools". In his view such a reservation would be ill-advised and would undo much of the presentational advantage of ratification. Moreover Article 2 of the First Protocol to the European Convention on Human Rights, which the United Kingdom had ratified in 1952, already required us to "respect the right of parents to ensure ... education and teaching in conformity with their own religious and philosophical convictions". Ratification of the Covenants without a reservation would not prevent the Government from squeezing private education, only from totally abolishing it. A reservation would stir up a great deal of trouble to no benefit. No other country had made or was known to be contemplating such a reservation.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that private education was a subject which aroused strong emotions in the Labour Party, and many members of the Party were seriously concerned about the public schools. He had found great difficulty in trying to moderate the views on this subject of the Education Committee of the National Executive Committee, and there would be a strong reaction if it appeared that the Government were giving up their objective of ending independent schools, especially as the current phase of the Government's policy had increased the number of such schools. In his view the reservation should be made.

In discussion it was argued, against making a reservation, that it might place the United Kingdom in a peculiar light in relation to other countries which had ratified the Covenants. The issue was not confined to public schools. There were other independent schools of a kind which no-one would wish to abolish, and it was doubtful whether it would ever prove possible to legislate the public schools out of existence as distinct from making life increasingly difficult for them. The right in question was the right of parents to choose other than State schools, and there was no Party document which sought to deny this right. The Government would have no satisfactory answer to the question what plans they had in mind which necessitated a reservation. There was concern among the churches about the possible effect of Labour Party education policy on church schools, and paragraph 3 of Article 13 of the Covenant included also the right of parents to ensure the religious upbringing of their children in conformity with their own convictions. The reservation would be bound to arouse fears that church schools would be abolished or compulsorily integrated into the State system. It was suggested that, if at some future time a Labour government were in a position to abolish all private education, that would be the time to make a reservation, although the usual course was to make reservations at the time of ratification.

In favour of making a reservation it was argued that it was essential to preserve the Government's freedom of action to deal with the public schools, which many people saw as among the most unfortunate features of British life. Failure to make a reservation would lead the Party to believe that this aim had been abandoned, and this would be damaging. The issue in question was not one of human rights, or of religion, but of educational policy. Article 13 set out an educational policy, which was properly for Parliament to determine, to be interpreted and enforced by courts, and the appropriate form of reservation would be that this Article would not be allowed to interfere with the Government's educational policy. The Labour Party would not accept the International Covenants or any charter of human rights if an Article which entrenched a non-Labour view on education was accepted without reservation. Most church schools were already within the State system, and most Roman Catholics did not aspire to private education.

THE PRIME MINISTER, summing up the discussion, said that there was a difference of opinion on whether a reservation should be made, but a majority of the Cabinet were against doing so. It was however clear that, whether or not there were a reservation, questions would be raised following ratification about the Government's intentions relating to independent schools, and the Government would have to explain their position. In the Attorney General's view, which the Lord Chancellor shared,

the broad terms of Article 13 would not restrict the Government's right to confine to public authorities the power to establish and conduct schools, and there was much doubt whether the European Convention on Human Rights embodied a right to fee-paying education. Accordingly the Cabinet agreed that there should not be a reservation, but that, on ratification of the Covenants, the Government should give an explanation, probably in Parliament, that it did not find it necessary to enter a reservation in regard to Article 13 because it saw no incompatibility between that Article and Government policy.

The Cabinet -

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

PUBLIC EXPENDITURE

Previous Reference: CM(76) 2nd Conclusions, Minute 4

The Economic Background

3. THE CHANCELLOR OF THE EXCHEQUER said that the Cabinet faced difficult decisions on a number of public expenditure matters which had to be taken against the background of unremitting pressure on sterling. Large scale intervention by the authorities had not prevented a 10 per cent depreciation and the reserves were at a dangerously low level. We had already drawn the first credit tranche from the International Monetary Fund (IMF). The new pay agreement which the Government had concluded with the Trades Union Congress (TUC) had impressed many overseas Governments and central bankers, and as a result of this agreement our wage settlements should be lower than many of our competitors. Nevertheless sterling remained disappointingly vulnerable to any bad news and the rate had dipped temporarily below $1.80 on 17 May and again that morning. There was no need for desperate measures at the moment and in his view the oil rich states still thought that we would succeed. They were not therefore removing their deposits. If however the sterling rate declined further there was a serious risk of dislodging these deposits. This would involve us in having recourse to short-term swap arrangements which we would only get on condition that we went to the IMF for longer term arrangements; and this in turn would require acceptance of conditions which would cause the greatest political difficulty. His personal judgment was that this situation need not arise provided the Cabinet retained a firm control over public expenditure. Foreign opinion was now increasingly concentrating upon the size of the public sector borrowing requirement. In the light of the new pay deal it would be impossible to reduce the burden of debt by large tax increases in the next year. Any action would have to be directly on public expenditure. He had resisted pressure for excessive cuts at a time of recession but the Public Expenditure White Paper, despite political criticism at home, had been reasonably well received abroad. The avoidance of further cuts depended absolutely however on not exceeding the limits which the Cabinet had set. This would involve very difficult decisions, particularly since some of the potential over-spending was bound to become public knowledge fairly soon. It was therefore essential to show that the Government had public expenditure under control within the White Paper figures. The Cabinet should bear this background in mind in their subsequent discussion of the child benefit scheme, the forecast of substantial over-spend by the local authorities and the state of the Contingency Reserve.

Child Benefit

Previous Reference: CM(76) 3rd Conclusions, Minute 3

The Cabinet had before them a note by the Chancellor of the Exchequer and the Secretary of State for Social Services CP(76) 18), covering a memorandum by officials, and a memorandum by the Secretary of State for Prices and Consumer Protection and Paymaster General and the Secretary of State for Social Services (CP(76) 21) on the Child Benefit (CB) Scheme.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that at their last discussion the Cabinet had been concerned by the extent of the transfer of resources from husband to wife which the CB scheme would involve, by the implications of this for the Government's pay policy next year and by the size of the claim on the Contingency Reserve which a CB rate at the level he had proposed would entail. In their memorandum (CP(76) 21) he and the Secretary of State for Prices and Consumer Protection and Paymaster General therefore proposed the introduction, from next April, of a modified version of the CB scheme for which the rate could be fixed at either £1.50 for all children, including the first, or at £1.20 for the first child and £1.50 for remaining children, and which would retain Child Tax Allowances (CTAs), but at a substantially lower level. The modified scheme would attract criticism for providing too little for families in the way of net cash gains and, from the women's lobby, for failing to transfer all the benefit to the mother, but it could be justified on grounds of public expenditure and the need to restrain inflation, and would go a long way to meet the specific points of concern which the Cabinet had expressed. The net cost, which would be of the same order as had been accepted by the Chief Secretary, Treasury, in relation to the full CB scheme, could, if necessary, be further reduced by allowing partial, instead of full, CTAs to the parents of non-resident children. He felt strongly that a modified scheme on these lines would attract far less criticism, particularly from Government supporters, than a decision to defer the scheme against all the public commitments which had been made in the Manifesto and in Parliament. Moreover, deferment would be attended by additional costs of the kind described in CP(76) 18; the administrative wastage alone of deferment would amount to £4 or £5 million. He therefore urged the Cabinet to adopt the proposals for a modified CB scheme, which would represent a modest start to the full scheme and, in his view, be understood by the Government's supporters as a necessary measure of economy.

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION AND PAYMASTER GENERAL said that she agreed that the modified CB scheme offered the best available compromise, by introducing a payment on the first child and by transferring resources from husband to wife without, however, having a drastic effect on take-home pay. To defer the CB scheme entirely would impose a severe strain on the ability of the TUC leadership to hold the unions to the terms of the recent pay agreement, since there was no doubt that the TUC attached considerable importance to the introduction of the CB scheme. So far as non-resident children were concerned, she believed that the parents of these children would have to be allowed a transitional period for the phasing out of their CTAs.

In discussion, there was substantial support for the view that the introduction of the CB scheme should be deferred for 3 years. The major threat to the Government was the unparalleled difficulty of the economic situation. If this reached the point of obliging the Government to seek help from the IMF on conditions which the TUC would find totally unacceptable, this would cause far greater damage to the Government's relations with the TUC than the deferment of the CB scheme. The introduction of a modified CB scheme, while failing to achieve the same public expenditure savings as deferment, would still be open to considerable criticism for not providing enough help to families and would entail significantly higher manpower costs. Because of the incidence of taxation on low incomes the net benefit to be derived from any CB scheme was bound to be lower than originally conceived; and this was a point which the TUC would be likely to take if it were fully explained to them. In favour of the introduction of a modified CB scheme it was argued that in accepting pay restraint the TUC had consistently relied on the fact that the Government were carrying out their Manifesto commitments in other fields: indeed the document being prepared for the TUC General Council meeting on 16 June specifically welcomed the introduction of the CB scheme. Failure to introduce it could prejudice implementation of the pay policy agreement. On the other hand it was very doubtful whether the TUC were fully aware of the effect on take-home pay of the CB scheme and of its political implications. Moreover they could be relied upon to take a responsible view of the beneficial effect of a deferment on overseas confidence in sterling. In order to maintain the trust of the TUC, which was vital to the Government's strategy, it would be essential to discuss the problem fully with them on the basis of genuine consultations and not merely to explain a decision already taken.

THE PRIME MINISTER, summing up this part of the discussion, said that the weight of opinion within the Cabinet was substantially in favour of deferment of the CB scheme for 3 years, which, subject to further consideration, might be combined with one or two anti-poverty measures, for example an increase in Child Interim Benefit. It would however be wrong to proceed to a final decision without explaining the position fully to the TUC. The Chancellor of the Exchequer, the Secretary of State for Prices and Consumer Protection and Paymaster General, the Secretary of State for Employment and the Secretary of State for Social Services should therefore see the TUC urgently and report the outcome to the Cabinet on Tuesday 25 May when a final decision would be taken. These consultations should be held on the basis of the full CB scheme and the serious objections which the Government saw to its introduction next year. It would be open to the Ministers concerned to indicate the possibility of a modified scheme but, in so doing, they should explain the strong arguments against it and keep in mind that the weight of the Cabinet view had been in favour of deferment. The question whether an announcement of a Government decision on the CB scheme should include a statement to the effect that the TUC had been consulted was one which the Cabinet would wish to consider in the light of the TUC's own wishes.

The Cabinet -

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

2. Invited the Chancellor of the Exchequer, together with the Secretary of State for Prices and Consumer Protection and Paymaster General, the Secretary of State for Employment and the Secretary of State for Social Services, to arrange early consultations with the TUC on the lines indicated in the summing up, and to report the outcome to the Cabinet at their next meeting.

3. Agreed to resume their discussion on Tuesday 25 May.

Local Authority Current Expenditure

THE CHIEF SECRETARY, TREASURY, said that the prospective over-spend of £300 to £500 million in local authority current expenditure in 1976-77, revealed in CP(76) 15 and 16, presented the Government with an extremely serious situation. The Ministers concerned were due to meet the local authority representatives on 26 May at the next meeting of the Consultative Council on Local Government Finance, and it was quite possible that knowledge of the new figures would become public shortly after that meeting. The effect of such news upon overseas confidence could be grave. He had therefore discussed the situation with the Ministers responsible for local authority spending. The Government exercised no direct control over local authority current expenditure, and there was no easy answer to the problem of getting them to keep their expenditure within the planned limits. It might be possible to say that the Government would withhold the further grant which would normally be paid later in the year under a Cost Increase Order, leaving local authorities to trim their spending accordingly; but this was a very blunt weapon; it would affect all local authorities indiscriminately including those who had done all they could to constrain their expenditure; and it ran the danger of destroying the present degree of co-operation between Government and local authorities. The Ministers concerned had therefore concluded that, at the meeting of the Consultative Council on 26 May, the local authorities should be told quite firmly that the prospective over-spend was totally unacceptable to the Government and that the local authorities must find ways of avoiding it. They would be asked to make a further return in two months' time of their expenditure forecasts showing, it was to be hoped reduced figures reflecting the steps they proposed to take to this end. The Department of the Environment would, shortly after the meeting, issue a circular giving guidance on how local authorities could reduce expenditure this year. They would also be told on 26 May that the Government had already decided that the Rate Support Grant for

1977-78 would be based upon the figures in the Public Expenditure White Paper of last February (Cmnd 6393) and not upon any later and higher forecast. The Secretary of State for the Environment would seek agreement at the meeting of the Council to the issue of a Press statement as soon as the meeting ended, which would indicate the over-spend implied by the recent returns, the Government's refusal to contemplate any such over-spend, and the action being taken to correct the situation.

He recommended to Cabinet that this line should be adopted at the meeting of the Consultative Council. He added that Cabinet should not, in his view, rule out the possibility that at a later stage in the year they might wish to withhold the whole or part of the further grant under a Cost Increase Order, since a final decision on this must turn upon the picture which would be revealed by the further returns from local authorities in July.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that part of the 1976-77 prospective excess had arisen because expenditure in 1975-76 was now thought to be £150 million higher than had been assumed when the last Rate Support Grant settlement had been made. The 1976-77 excess was only prospective, and not yet actual, and no doubt some of the figures were based upon assumptions which might be unduly pessimistic - e.g. about the likely rate of inflation through the year - so that the further information which would be available in July might well show a much better prospect. In his view it would be a mistake to decline to give any grant under a Cost Increase Order this year, since this could rapidly bring local authority services to a halt. The proposed statement of the Government's intention in respect of 1977-78 would in his view provide a very real discipline. The circular to local authorities on how to make reductions would be cleared in draft with other Ministers concerned. He would consider whether to table the circular at the meeting of the Consultative Council or merely refer to it orally and send a draft to the Local Authority Associations later. He regarded the issue of a Press Notice at the end of the meeting as essential. He would in addition wish to consult the more important trade unions in the local authority field - particularly the National and Local Government Officers Association and the National Union of Public Employees - and he proposed to call in their representatives for an informal and confidential warning of the difficulties which had arisen in advance of the Press statement.

THE PRIME MINISTER, summing up this part of the discussion, said that it was accepted in Cabinet that the best course would be to proceed by co-operation and agreement with the local authorities as far as possible. Arrangements should be made to obtain a further return in two months time from local authorities of their prospective current expenditure in 1976-77, and there seemed every reason to hope that this might well show an improvement. At the meeting of the Consultative Council on 26 May, the Government representatives should

make it quite clear that the prospective over-spend in 1976-77 was totally unacceptable, and that steps must be taken to eliminate it. They should also inform the local authorities that the Government had decided that the Rate Support Grant for 1977-78 would be based on the figures in the last Public Expenditure White Paper (Cmnd 6393) and not upon some higher estimate of next year's local authority spending. In the meantime the Secretary of State for the Environment should, as he suggested, prepare to issue a circular giving guidance on how expenditure in 1976-77 might be reduced. He should also consult informally with the representatives of the trade unions most closely involved and there should be similar informal consultation with the teachers' representative on the General Council of the TUC. The Secretary of State for the Environment would consider whether the Public Services Committee of the TUC should be consulted, but it would be important to keep the consultations informal and confidential. Comparable action in all respects would need to be taken in Scotland.

The Cabinet -

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

5. Invited the Secretary of State for the Environment, in consultation with the other Ministers concerned, to be guided accordingly at the meeting of the Consultative Council on Local Government Finance on 26 May.

6. Invited the Secretary of State for the Environment, in consultation with the other Ministers concerned, to arrange for a further return of expenditure from local authorities in two months' time.

7. Invited the Secretary of State for the Environment, in consultation with the other Ministers concerned, to prepare a draft of a circular to local authorities giving guidance on the way in which expenditure reductions might be made, such a circular to be issued after 26 May.

8. Invited the Secretary of State for Scotland to take parallel action in respect of Scottish local authorities.

Housing

THE CHIEF SECRETARY, TREASURY, said that the prospective excess in 1976-77 on housing had been £200 million; but in discussion with the Secretary of State for the Environment savings - of £30 million on housing improvements, and £30 million on municipalisation, both arising from estimating changes - had been agreed as offsets, so that the net excess now in prospect was £140 million. Under the Government's present policy, local authority housing investment was totally uncontrolled, and the commitment it involved was therefore open-ended. By agreement with the Secretary of State for the Environment, officials were now doing a quick study of ways in which this expenditure might be brought under control if Ministers so decided. That, however, would not affect the immediate position and he recommended that further ways of offsetting the 1976-77 excess should be sought. Of the planned figure of £250 million for local authority mortgage lending, 40 per cent or around £100 million had been held back for later in the year, and it would be possible, by a moratorium on further new lending by local authorities to save the whole of this sum. He recognised the political difficulties of such a course but felt compelled to recommend it to Cabinet. He did not know how far the Building Societies might be able to bridge the resultant gap. He also suggested that a further £40 million of savings should be made on housing improvement and municipalisation. He reminded the meeting that the potential claims on the Contingency Reserve were already far above what could possibly be accommodated, and the alternatives to the proposals he had put forward were unlikely to be any more acceptable. Thus, some £250 million could be saved by a total moratorium on all new non-housing building projects; but such a course would have a severe effect upon the construction industries. Again, £150 million might be saved if there were an across-the-board cut of 2 per cent in all current expenditure other than pay; but this would hardly commend itself to his colleagues. Similarly the idea of cutting transfer payments presented enormous difficulties. For these reasons he felt compelled to rest upon the proposals he had made.

THE SECRETARY OF STATE FOR THE ENVIRONMENT pointed out that half of the excess in prospect was the result of quicker completions of houses which were in process of being built, a speeding up which was the direct result of the slack in the building industry. In his view, when Cabinet decided that public sector housebuilding should be left uncontrolled, it meant that Cabinet had accepted the need, should the situation arise which had now come about, to accept the extra expenditure as a legitimate claim on the Contingency Reserve. It might be that the Housing Finance Review would reveal ways of improving the present position, but he was anxious to avoid chaos in housing or political damage for the Government. The recent local authority elections had led to an increase in the number of Conservative-controlled councils, who were opposed to large-scale housebuilding programmes and who favoured the sale of council houses. This fact alone might itself soon produce

a reduction in the housing figures. An indication from the Government that they wished housing expenditure to be cut would be welcomed by every Conservative Council and would puzzle every Labour Council. As for municipalisation, he pointed out that a circular encouraging just this had been issued by his Department only some two months earlier. He had, in discussion with the Chief Secretary, volunteered the £60 million of savings to which the Chief Secretary had referred; and, if left discretion as to where he might find it, he would be prepared to find a further £40 million. He did not feel he could go further than that.

In discussion it was observed that in Scotland there should be no difficulty about keeping within the planned housing expenditure figures even without withdrawing from the open-ended commitment on housing investment. On occasion there was not enough money available for water and sewerage projects to keep pace with housing and there would be advantage in some increased degree of flexibility over these areas. On local authority mortgage lending, it was suggested that the Government should explore the possibility of getting the Building Societies to make loans to borrowers, and in respect of houses, at present covered by the local authorities. One possibility would be to tell the local authorities that they must stop lending in those cases where Building Societies were willing and able to lend, else there would have to be a total moratorium on their lending. Another possibility would be to find ways of refinancing existing loans, perhaps through the banks. The practice of treating guarantees as public expenditure, thus swelling the public expenditure figures, should be reconsidered. It was, however, pointed out that guarantees would not induce Building Societies to lend money to borrowers or in respect of properties which they would not normally touch, and in Scotland the guarantee system had been a failure.

THE PRIME MINISTER, summing up this part of the discussion, said that the possibility of making further savings on housing expenditure to offset the prospective £140 million excess should be considered further by the Ministers concerned. In the course of this they should consider the possibility of persuading the Building Societies, through guarantees or refinancing, to take over some part of the lending at present done by local authorities. For the moment the Cabinet did not agree either that the £140 million could be accepted as a claim on the Contingency Reserve, or that the 40 per cent of local authority mortgage lending money at present reserved should be released. These matters would have to be considered again on the basis of a further report.

The Cabinet -

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

10. Invited the Secretary of State for the Environment, in consultation with the Secretary of State for Scotland, the Secretary of State for Wales, the Chancellor of the Duchy of Lancaster and the Chief Secretary, Treasury, to consider urgently ways of reducing the prospective excess on housing expenditure in 1976-77, including the role the banks and the Building Societies might play, and to report back urgently.

Nationalised Industry Expenditure

THE CHIEF SECRETARY, TREASURY, said that, in view of the demands on the Contingency Reserve, it would be important that every Minister responsible for a nationalised industry should scrutinise with a very critical eye any requests for additional finance. In particular the requirement for the coal stockpile should be kept to a minimum.

THE PRIME MINISTER, summing up a brief discussion, said that it had been suggested that the coal stockpile arose because of a lack of demand, attributable in part to the high prices which the consumer could not afford, while another nationalised industry - the Central Electricity Generating Board - was buying coal overseas and stockpiling it both here and abroad. Whether there should be a reversion to the earlier arrangement whereby only the National Coal Board were empowered to import coal was a complex question and not one for settlement at that meeting. All Ministers responsible for the nationalised industries should think further about how far they could cut down claims by their industries on the Contingency Reserve for additional expenditure, including working capital, and should write to the Chief Secretary, Treasury, indicating the outcome of their consideration.

The Cabinet -

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

Overseas Students

THE PRIME MINISTER, summing up a brief discussion, said that it was now thought that the reduction in the cost of educating overseas students would only total £21 million instead of £42 million; but the Secretary of State for Education and Science had indicated that he was willing to find the other £21 million from other expenditure under his control. Clearly it would be necessary to identify this saving, and officials of the Department should consult with the Treasury to this end.

The Cabinet -

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

**Students and Social Security Benefits**

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet had agreed to save £15 million on social security payments to students; but the way of doing this would need further consideration in the light of their discussion on child benefits and this would need to be discussed by the Departments concerned.

The Cabinet -

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

14. Invited the Secretary of State for Social Services, in consultation with the Secretary of State for Education and Science and the Chief Secretary, Treasury, to consider how the proposed savings might be made.

**Recommended Claims**

THE PRIME MINISTER said that in the last public expenditure progress report which had been put to the Cabinet (CP(76) 6) there had been listed (at Items 11-16 of Section A 2 of Table 1 appended to the Chief Secretary's paper) certain recommended claims totalling £26 million in 1976-77. No objection had been raised to these, but they had not been formally approved, and he proposed that this should now be done.

The Cabinet -

15. Agreed that the recommended claims should be approved.

PROGRAMME ANALYSIS AND REVIEW

4. The Cabinet had before them memoranda by the Chancellor of the Exchequer (CP(76) 19) and the Central Policy Review Staff (CP(76) 20) on a future Programme Analysis and Review (PAR) programme.

Future Programme

THE PRIME MINISTER, summing up a brief discussion, said that several members of the Cabinet had questioned whether the value obtained from the PAR system was sufficient to justify the substantial resources which it absorbed. Before considering the future programme the Cabinet would wish to have a considered report on the utility of the present system and its costs. The Chancellor of the Exchequer should therefore bring such a paper before the Cabinet.

The Cabinet -

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

2. Invited the Chancellor of the Exchequer to bring before the Cabinet an assessment of the value of the programme analysis and review system.

Disclosure to Parliament

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that when he appeared before the Select Committee on Expenditure on 24 May he would be asked to provide the Committee with copies of two PAR studies completed in 1972. The Committee knew of the existence of these reviews because they had been disclosed by officials, without Ministerial authority, to the Organisation for Economic Co-operation and Development. Mr Heath and Mrs Thatcher, who had been Prime Minister and Secretary of State for Education and Science respectively at the time that the reviews were completed, had given their consent to the reviews being made available to present Ministers and to the Select Committee. He nevertheless intended to refuse to give the documents to the Committee on the grounds that all PAR reviews were confidential. He felt sure that if the Select Committee were given these reports it would be very difficult to refuse to provide other PAR reports prepared for the present Administration to other Select Committees.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet could not reach a view on the issue without having before them all the relevant facts. The Secretary of State for Education and Science should discuss the course which he proposed to take with the Chief Secretary, Treasury. If they were unable to reach an agreed view this should be reported to him.

The Cabinet -

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

4. Invited the Secretary of State for Education and Science to discuss his proposed response to the Select Committee on Expenditure with the Chief Secretary, Treasury and, if necessary, to refer the matter to the Prime Minister.

Cabinet Office

20 May 1976

M(76) 7th
nclusions

COPY NO 85

# CABINET

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

TUESDAY 25 MAY 1976

at 10.30 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

Rt Hon Michael Foot MP
d President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

Rt Hon Roy Jenkins MP
retary of State for the Home Department

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

Rt Hon Anthony Crosland MP
retary of State for Foreign and
monwealth Affairs

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

Rt Hon Anthony Wedgwood Benn MP
retary of State for Energy

The Rt Hon Eric Varley MP
Secretary of State for Industry

Rt Hon Peter Shore MP
retary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

Rt Hon Bruce Millan MP
retary of State for Scotland

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

Rt Hon Merlyn Rees MP
retary of State for Northern Ireland

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

Rt Hon Albert Booth MP
retary of State for Employment

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 FOLLOWING WERE ALSO PRESENT

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Items 4 and 5)

SECRETARIAT

| | |
|---|---|
| Sir John Hunt | |
| Mr J Garlick | (Item 3) |
| Mr G R Denman | (Items 1 and 2) |
| Mr T F Brenchley | (Item 2) |
| Mr W I McIndoe | (Items 4 and 5) |
| Mr J S Scott-Whyte | (Item 3) |
| Mr A D Gordon-Brown | (Item 1) |

CONTENTS

PARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the week beginning 7 June.

Aircraft and Shipbuilding Industries Bill

THE SECRETARY OF STATE FOR INDUSTRY reported that two amendments which had been put down by Labour Members for the Report Stage of the Aircraft and Shipbuilding Industries Bill were likely to be supported by the Conservatives and could cause considerable difficulty. The first amendment, by Mr Frederick Willey, would alter the reference period for the calculation of compensation; if it were carried the additional cost might be £80 million, the Bill would need extensive redrafting and Third Reading might have to be deferred. The amendment might attract some support from other Labour Members in the erroneous belief that the additional money would help shipbuilding companies in their areas. The other amendment, by a group of Labour Members, would exclude Bristol Channel Ship Repairers from the Bill, contrary to the Government's clear commitment to nationalise ship repairers.

THE PRIME MINISTER, summing up a brief discussion, said the Cabinet noted that efforts were being made to dissuade the Members concerned from pressing their amendments. It was important that all Ministers should be present to vote on them.

The Cabinet -

1. Took note.

Weights and Measures Bill

THE LORD PRESIDENT OF THE COUNCIL said that it was now thought that it would be possible to get this Bill through Parliament during the current Session, and it was proposed to proceed with the Bill in the House of Lords before the House of Commons, by introducing a Weights and Measures (No 2) Bill in the Lords before the Whitsun Recess.

THE PRIME MINISTER, summing up a very brief discussion, said that the Cabinet agreed with this proposal.

The Cabinet -

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

FOREIGN AFFAIRS

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Iceland

Previous Reference: CM(76) 2nd Conclusions Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the North Atlantic Council meeting in Oslo had given him the opportunity to hold useful private discussions with the Icelandic Foreign Minister, Mr Agustsson, and with the Icelandic Prime Minister, Mr Halgrimmson, who had flown to Oslo to join the talks. It now seemed that, perhaps for the first time, both sides genuinely wanted to reach an agreement, and they were quite near to an agreed text which could form the basis for a very brief negotiation. He had been expecting to fly to Oslo the following day to conduct this negotiation in the hope that it would be concluded in time for a statement to Parliament before the Whitsun Recess, but the latest news from the Icelandic side showed that this timetable was likely to slip by a day or two. The agreement now in prospect would no doubt be criticised by the fishing industry, but the more intelligent members of that industry would know that it was in fact the best agreement available.

The Cabinet -

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

PARLIAMENTARY STATEMENT ON DEVOLUTION

3. The Cabinet had before them a note by the Lord President of the Council (CP(76) 72) to which was attached a draft Parliamentary statement together with a revised version of the draft statement prepared after discussion in the Ministerial Committee on Devolution Strategy on 24 May.

THE LORD PRESIDENT OF THE COUNCIL said that it was important that the Government should announce their intentions on a number of important procedural matters concerning the forthcoming Devolution Bill and also on certain devolution policy issues in advance of the Conference of the Scottish National Party later in the week. His proposed statement built on consensus within the Labour movement in Scotland and on increasing consensus in Wales and would serve to recruit essential support for the Government's policies. All the matters dealt with had been fully discussed in the Ministerial Committees on Devolution Policy (DVP) and Devolution Strategy (DVY). Conclusions had still to be reached by these Committees on a number of other important issues which would, he hoped, form the substance of a further statement to be made before the Summer Recess.

In discussion of the revised draft statement the following points were made -

a. The omission of a reaffirmation of the Government's intentions for the universities was without prejudice to further collective consideration of the issue.

b. While the possibility of a referendum on the Government's present devolution proposals should be rejected, the terms in which this was done should not completely rule out the possibility of a later referendum on eg Scottish separatism should this become expedient.

c. The proposals for a further measure of devolution in respect of the Scottish and Welsh Development Agencies involved crossing a boundary previously drawn to exclude the devolved administrations from economic matters. There was some risk that this concession would encourage pressure for further advances in this field and thus imperil the economic unity of the United Kingdom. On the other hand it was clear that the changes proposed would do more than anything else to rally the support of the Labour movement in Scotland and the Scottish Trade Union Congress; whereas refusal to make them would alienate moderate opinion and threaten the Government's whole strategy. It should be possible to protect the United Kingdom interest both by the proposed guidelines and by making it clear from the outset that there could be no question of devolving responsibility for regional or other selective assistance under the Industry Act.

d. The definition (paragraph 13) of the roles of the territorial Secretaries of State should not refer to, even to repudiate, the allegation that they might act as "autocratic supervisors" of the devolved administrations.

A number of drafting amendments were agreed.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the draft statement as revised in discussion and agreed that it should be made in both Houses of Parliament that afternoon. The framing of the Government's proposals had involved a number of difficult decisions but it was of the utmost importance that all Ministers should show whole-hearted support for them in order to reap the maximum political advantage.

The Cabinet -

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

PRESS LEAK

Previous Reference: CM(76) 3rd Conclusions Minute 2

4. THE PRIME MINISTER said that the further embarrassing article by the Social Services correspondent of The Times which had appeared in that newspaper on the morning following the Cabinet's last discussion of Child Benefit had been written before the Cabinet minutes were circulated: it must therefore trace its origin, directly or indirectly, to someone who had been present at the discussion. It was a serious matter that the Cabinet's decisions and the subsequent presentation of them should be prejudiced in this way. The recent Motion on the Order Paper, which had attracted a substantial number of signatures, was clearly a direct result of the Press leaks which had attended the discussions on Child Benefit. He appealed once more to all his colleagues to exercise a proper sense of responsibility by restricting knowledge of sensitive Cabinet proceedings to those in Government immediately concerned.

The Cabinet -

Took note, with approval, of the Prime Minister's statement.

ILD BENEFIT

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5. THE PRIME MINISTER invited the Chancellor of the Exchequer to report the outcome of the consultations which he, together with the Secretary of State for Prices and Consumer Protection and Paymaster General, the Secretary of State for Employment and the Secretary of State for Social Services, had held with representatives of the Trades Union Congress (TUC) in pursuance of the conclusion reached at the Cabinet's discussion of the Child Benefit (CB) scheme on 20 May.

THE CHANCELLOR OF THE EXCHEQUER said that he and the other Ministers concerned had met representatives of the TUC the previous afternoon. He had explained the problem to them on the basis that it was necessary, in view of the present restraints on public expenditure, to limit the net Exchequer cost of any CB scheme to £100 million. He had said that, having reviewed all the possibilities, a majority of the Cabinet favoured a deferment of the introduction of the scheme for 3 years but the Cabinet wished the TUC to be consulted before reaching a final decision. On being informed of the reductions in take-home pay which the CB scheme would involve, the TUC representatives had reacted immediately and violently against its implementation, irrespective of the level of benefits which would accompany the reductions in take-home pay. They had also argued very strongly against any cut in child tax allowances (CTAs) on the grounds that this would appear to reverse the action taken by the Government in the recent Budget and would be damaging to the success of the next round of pay negotiations. On the other hand, they felt that it would impose a great strain on the social contract if nothing were done for first children since there was a widespread public expectation that payments for these children would be introduced next year. They had therefore pressed very strongly for the existing family allowances (FAM), with the normal provisions for tax and clawback, to be extended to the first child in every family. If the FAM rate of £1.50 were extended to the first child, however, this would involve a net Exchequer cost of well over £100 million. He had therefore suggested to the TUC that 75p might be an appropriate rate for first children but this they had regarded as too low. In the light of the discussions, which had been conducted throughout in a friendly atmosphere and in which the TUC representatives had fully accepted that the decision whether to defer the CB scheme or introduce a payment for the first child was entirely one for the Cabinet to take, his own view was that it would be unwise to do nothing for the first child. On the other hand, he did not consider that the country could afford a rate of payment of £1.50. He therefore proposed that the payment on first children would be £1, with a 50p premium for one-parent families, and that the appropriate arrangements for tax and clawback should apply. The net Exchequer cost would be £80 million at 1975 prices and £95-£100 million at current prices. The Secretary of State for Social Services saw great administrative

difficulty in extending the FAM allowance scheme, which in itself would involve legislation, since the scheme was in the process of being abolished. But the payments on first children, although represented to the TUC as a virtual extension of the FAM allowance scheme, could be made under the new CB legislation; and this might have presentational advantages in relation to the Parliamentary Labour Party.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he agreed with the Chancellor of the Exchequer's proposals except on one point: he would prefer a small reduction in CTAs, on the lines of the proposals for phasing in CB which had been considered at the Cabinet's last meeting, to the application of tax and clawback arrangements; the net Exchequer cost would be the same in either case. The advantage of this change was that the measure would appear as a first step towards the implementation of the CB scheme as conceived.

In discussion, there was a wide measure of support for the proposals which the Chancellor had put forward. Against the modification proposed by the Secretary of State for Social Services, it was argued that the machinery of tax and clawback was familiar whereas a reduction in CTAs would be seen as a new development resulting in reduced take-home pay, and this might have unfortunate consequences for the next round of pay negotiations. Moreover, to retain the existing level of CTAs would avoid the political difficulty, which the consultations with the TUC had amply confirmed, of having to differentiate in favour of the parents of non-resident children if, as the Cabinet had provisionally agreed, these parents were to be left no worse off. The reduction of tax and clawback provisions would however make it more inevitable that the Government would be asked what their intentions were for the introduction of the CB scheme as conceived. In the light of the TUC's views the reply would have to be in guarded terms, on the lines that the questions of level of benefit and of eventual adjustment of CTAs would be kept under review in the light of the resources available. The leaks about the Cabinet's discussions and the possibility that further delay might attract many more signatures to the relevant motion on the Order Paper, were compelling arguments for announcing the Government's decision in the House of Commons that afternoon. It would however be desirable for the decision to be explained to a meeting of the Parliamentary Labour Party immediately after a statement was made. The statement should bring out the public expenditure constraints which had determined the low rate of payment for first children. It would also be necessary to inform the TUC in advance of the reasons why the Government could not extend the FAM allowance scheme as such to first children.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that, as from 1 April 1977, a payment should be introduced for first children at the rate of £1, with a 50p premium for one-parent families, and that tax and clawback provisions should apply as they did to FAM allowances. These measures would be introduced under the new CB legislation and the Secretary of State for Social Services should announce them that afternoon in the House of Commons, having previously informed the TUC of the reasons why the Government could not adopt the suggestion of extending the FAM allowance scheme as such to the first child. The Secretary of State for Social Services should agree the terms of his statement with the Chief Secretary, Treasury and, after it was made, should explain the reasons for the Government's decision at the meeting of the Parliamentary Labour Party which had been arranged to discuss other matters later that afternoon.

The Cabinet -

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

Cabinet Office

25 May 1976

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CM(76) 8th Conclusions

COPY NO 85

# CABINET

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

THURSDAY 10 JUNE 1976

at 10.30 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

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

Mr Michael Cocks MP
Parliamentary Secretary, Treasury
(Item 1)

SECRETARIAT

Sir John Hunt
Mr G R Denman (Items 1 and 2)
Mr T F Brenchley (Item 2)
Mr W I McIndoe (Item 4)
Mr D le B Jones (Item 3)
Mr J A Marshall (Item 3)
Mr A D Gordon-Brown (Item 1)

CONTENTS

PARLIAMENTARY AFFAIRS

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

Aircraft and Shipbuilding Industries Bill

Previous Reference: CM(76) 7th Conclusions, Minute 1

THE LORD PRESIDENT OF THE COUNCIL said that the situation which had arisen in Parliament on the Aircraft and Shipbuilding Industries Bill was disruptive of the Government's business, and especially of the work of Ministers. When it had become known that the Speaker would rule that this Bill was prima facie hybrid a quick decision had been needed on what action to take in an unprecedented situation, but he doubted whether any different line of action would have avoided the difficulties which had subsequently arisen. The aim now must be to restore the operation of the usual channels as soon as possible. There was a considerable number of Government Bills still to be completed in the House of Commons, and a large number of Orders requiring Affirmative Resolutions which were needed by the Summer Recess. Even if the Opposition resumed co-operation they would remain able to hold up Government business, as they had done the previous day on the Report Stage of the Education Bill, and some timetable Motions seemed likely to be necessary, at least on the Aircraft and Shipbuilding Industries, Dock Work Regulation and Education Bills. It would have to be made clear to the Opposition in any discussions on the resumption of co-operation that timetable Motions might nevertheless be required unless there were undertakings to get the remaining controversial Bills through the House of Commons in sufficient time. He hoped that the present difficulties would ease before too long but thought it right to warn the Cabinet that they might persist for a considerable time.

In discussion it was pointed out that two separate sources of difficulty had arisen on the Aircraft and Shipbuilding Industries Bill, the question of hybridity and the allegations relating to the second division on 27 May. It was proposed to amend the Bill at the Report Stage to remove any element of hybridity; and it was thought that the Speaker would then be prepared to give a certificate that the Bill was not hybrid, and that the House of Lords would be unlikely to challenge such a certificate although they might well seek to delay the Bill. The second source of difficulty would remain, and it was clear that, if the usual channels were not operating normally in the House of Commons, there was no hope of obtaining the co-operation from the Opposition in the House of Lords which would be essential if there were to be any chance of completing the Government's legislative business by the end of the Session. It was suggested that in this situation some concession to the Opposition would have to be considered to induce them to resume co-operation. Agreement by the Government to treat the Aircraft and Shipbuilding Industries Bill as hybrid would have the desired effect, but the delay to the Bill involved in this and the

possibility of wrecking amendments being made would have a serious effect on the shipbuilding industry, which was in grave difficulty, and would be badly received by the Government's supporters. Other possibilities put forward were to have a further vote on the Government Motion which had been carried by one vote on 27 May - though it was suggested that this would amount to an admission that the vote on 27 May had not been valid; or to take the Report Stage of the Bill under the Government Motion relating to the Standing Orders but to allow normal Standing Orders to apply on Third Reading and obtain a further vote on the hybridity question then; or to withdraw the Bill and reintroduce it immediately in a non-hybrid form and take it through under a timetable Motion; or to split the Bill and deal separately with the aircraft and shipbuilding industries - though it was suggested that this would be the worst of all worlds.

In further discussion it was suggested that, especially following the previous day's unsuccessful Motion of Censure, the Opposition would cool down, and doubts were expressed whether they would maintain non-co-operation for very long. But there could be no certainty about this, and a number of suggestions were made for encouraging a resumption of normal relations. On pairing, the first step might be to seek Opposition agreement to pairs for Ministers absent on important official engagements, eg representing the country overseas or on duty in Northern Ireland. The damage to the conduct of the nation's business caused by refusal of pairs to Ministers would be regarded as more important by the general public than delays to Government legislation. Direct pairing arrangements between back-benchers might be encouraged on business which in normal circumstances would attract only a two-line Whip. The suggestion that proxy voting should be allowed for Ministers on official business overseas, or should be adopted more widely, might encourage the Opposition to return to normality. An offer might be made to the Opposition to examine the whole question of hybridity, on which the existing rules were arguably out of date, and to seek with them more orderly arrangements on pairing, and for ensuring that once the business for the coming week had been agreed that business would go through. It might also be made known to the Opposition that the Government had in mind the possibility of running together the present Session and the coming Session. It would, however, be necessary, before making overtures on procedural points of this kind, for the Government itself to have properly worked out proposals. On the allegations relating to the second vote on 27 May, it might be possible eventually to arrange for a joint statement by the two Chief Whips on the lines that they had gone into the whole affair and that, while there might have been misunderstandings, there had been no bad faith.

THE PRIME MINISTER, summing up the discussion, said that the Leader of the House and the Chief Whip had the full support of the whole Cabinet in dealing with the difficulties which arose from the Government's minority position. It was important to emphasise that the Government had done nothing of which to be ashamed. The Cabinet had reached no conclusions, but had had a helpful discussion of the general situation, and a number of useful suggestions had been made. He was himself uneasy at the prospect of a number of time-table Motions, which would not create a favourable public impression. All the suggestions made, and any other means of resolving the problems relating to the hybridity of the Aircraft and Shipbuilding Industries Bill and to the second vote on 27 May, should be further explored, and the Cabinet would resume their discussion of the Parliamentary situation the following week.

The Cabinet -

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

Tameside: Selection for Secondary Education

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that last November he had approved a plan for reorganisation on comprehensive lines submitted by the previous Tameside Local Education Authority (LEA), to take effect from September 1976, and the Authority had taken steps to implement this plan before the Conservatives had gained control of the Council at last month's elections. The new LEA were now planning new arrangements for selecting children for secondary education next September, on the basis of parental choice and teacher guidance, and representatives of the LEA had seen him the previous day. In view of the disruptive effect which this late change in plan would have he had in mind to use his power under Section 68 of the Education Act 1944 to direct the LEA to implement the plan of the previous Authority which he had approved last year. The Attorney General had been fully consulted about this proposal. It would be desirable to inform the LEA, Parliament and the Press of this before the weekend, if possible that afternoon, since the following day was the last day for parents to express their new preferences, and the reallocation of children by the LEA might start immediately thereafter.

In discussion it was pointed out that an announcement of this kind that afternoon might have a provocative effect on the Opposition, which should be avoided if possible. The use of the power under Section 68 of the 1944 Act had given rise to difficulties in the past,

and although the LEA were not expected to refuse to comply with the envisaged direction, there might well be criticism of the Government. Accordingly careful consideration was needed before deciding to use the power in the present case. It was only the previous day that representatives of the LEA had seen the Secretary of State for Education and Science, and it was reasonable that the Government should take at least a few days to consider the position.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet themselves were not in a position to reach a conclusion on this issue without more information. Accordingly the Secretary of State for Education and Science, with the Lord Chancellor, the Secretary of State for the Environment, the Minister for Overseas Development, the Attorney General and the Chief Whip, should give further consideration to the action proposed by the Secretary of State for Education and Science: these Ministers had authority to decide the matter. In the circumstances it would not be possible to inform the LEA or make any announcement that afternoon, and these steps would have to wait until the next day or Monday 14 June.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Secretary of State for Education and Science to proceed accordingly.

FOREIGN AFFAIRS

Angola

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that an official from his Department was attending the trial of the mercenaries in Luanda as an observer. He was being treated with reasonable courtesy but had not obtained access to much worthwhile information about the trial. It was difficult to see what further action the Government could take. There was no precedent for them to pay for defence lawyers for accused mercenaries: the American lawyers at the trial were being paid for out of private funds of one of the American families concerned.

The Cabinet -

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

ECONOMIC SITUATION

3. THE CHANCELLOR OF THE EXCHEQUER said that in the preceding week the exchange rate had been under serious attack and on Wednesday 2 June the rate had fallen by 4 cents. He had, with the agreement of the Prime Minister, broadcast on television on Wednesday evening in an attempt to reassure the market. As a result the rate had dropped by only $1\frac{1}{2}$ cents on the Thursday and had risen slightly on the Friday. He had resisted pressure to make immediate cuts in public expenditure and had, towards the end of the week, begun to explore the possibility of activating swap arrangements with the United States and West Germany. At this stage however the Chairman of the Group of Ten, which consisted of the world's richest countries, had suggested a larger operation to support sterling. As a result a swap facility worth $5,300 million, involving all countries in the Group of Ten except Italy, plus Switzerland and the Bank for International Settlements, had been successfully arranged by Sunday evening. As a result of his announcement of this facility on Monday afternoon, the rate had risen the following day by $2\frac{1}{2}$ cents, and then later in the day by a further 1 cent following the result of the miners' ballot on the second round of the pay policy. On Monday the rate had been $1.80 in New York, and since then it had fluctuated at a little above $1.77. Of the $2,000 million which had been made available by the United States, $1,000 million came from the Federal Reserve Bank in New York and $1,000 million from the United States Treasury, partly because the Federal Reserve Bank was under pressure from Congress not to arrange swaps too readily, and partly because in an election year the Bank wished to share the responsibility with the United States Government. The United States Secretary of the Treasury, Mr Simon, had been most helpful. The standby credit was not a loan, but a facility which meant that the additional dollars could be put into the United Kingdom foreign exchange reserves whenever the Government wished, but would attract no payment of interest unless spent, at which point the interest would be at the United States Treasury bill rate, currently $5\frac{1}{2}$ per cent. The facility was available for three months, renewable for a further three months, and there were no strings of any kind attached beyond an obligation, if at the end of the period the United Kingdom were unable otherwise to repay any drawings, to go to the International Monetary Fund (IMF) for a further tranche of borrowing. This meant that the Government need not consider before mid-October whether they need approach the IMF. In his view, if the United Kingdom drew any money under the facility it should be possible at a later stage to recover this through the market so that it could be repaid. The standby credit had been made available partly from a degree of self-interest on the part of the other central banks - particularly the Swiss, whose exchange rate was going uncomfortably high - and partly from their confidence in the Government's economic policies. In particular, the central banks had been impressed by the Government's relations with the trade unions. The support which he confidently expected the Trades Union Congress (TUC) on 16 June to give to the latest pay agreement should push up the rate further.

He appreciated that there was, in various quarters, concern over the size of the public sector borrowing requirement. Although he had no intention of cutting public expenditure in the current year, Ministers would need to consider the level of expenditure in future years when the report of the Public Expenditure Survey was available in July. If some revision of their plans were needed, they would have to consider whether these should be made through tax adjustments, public expenditure changes or other means. Information on the causes of the recent pressure on the pound was still being collected, and he would be looking at ways of reducing such pressure, eg by operating on the sterling holdings, whether through guarantees, or funding, or the creation of a substitution account at the IMF. On public expenditure, the 1976 Survey was in train and in the next week or two he expected to have in his hands the Medium-Term Economic Assessment, which this year was being done in a radically different, and more realistic, way than previously. The Short-Term Economic Forecast would not be available until early July, which meant that he would not be able to put forward material on the economic context in which public expenditure decisions would be needed until about mid-July. In the meantime, it would be most important to ensure that the public sector expenditure limits for 1976-77 laid down in the White Paper of last February were not broken, since, if they were, the Government would lose all credibility. The local authorities had already been told that they must stick to their agreed target, and Ministers must ensure for their part that agreed claims on the contingency reserve - on which there would shortly be a further paper to Cabinet - were similarly restrained. He asked his colleagues to be particularly cautious in any public speeches they made relating to the economy, the exchange rate or to public expenditure, and to ensure that they cleared such references with the Treasury in advance.

In discussion the following points were made -

a. The exchange rate had received an excessive coverage in the media in recent weeks, and its importance had been grossly over-emphasised by the British Broadcasting Corporation (BBC) in a way which helped to induce an unjustifiably nervous state in the foreign exchange market. If possible, it would be desirable to remind the BBC of its obligations to the country in these matters, although the Government had of course no control over the material which the BBC chose to broadcast.

b. While the situation remained far from assured, June and July might well be helped by the announcement of good figures for the increase in the Retail Price Index (RPI) which, partly because of the drop in potato prices, would fall to

$13\frac{1}{2}$ per cent. Difficulties might arise in the autumn when the index would be less likely to fall. If it were possible to arrange reassuring statements on, eg, the public sector borrowing requirement then, that might be helpful. On the other hand, those operating in the foreign exchange market already appreciated correctly the importance of the public sector borrowing requirement. They wanted to know that the Government were concerned about its size and recognised the need to reduce it. There could be political advantages in early action on next year's borrowing requirement before any possible recourse to the IMF in the autumn.

c. Although overseas opinion had taken some account of it, there had not yet been a full appreciation at home of the significance of the recently announced increase in the United Kingdom's recoverable reserves of gas and oil. The Department of Energy were endeavouring to produce more telling monthly statistics which would point up the value of these assets, upon which emphasis could also be laid at the Energy Conference later in the month. However, it was observed that foreign opinion had already taken full account of the value of the oil and gas reserves, and it was only for this reason that the country had obtained help on the scale which had recently been arranged. The additional resource growth from North Sea oil and gas would be relatively small.

THE PRIME MINISTER, summing up the discussion, said that, although the RPI figures for the next two months would be helpful, and the outcome of the TUC meeting of 16 June could be expected to assist the pound, he still felt that for the next six weeks the position would be fragile. For this reason he would himself resist regarding the standby facility as a triumph. It would take time to recover from the difficulties of the last two or three weeks, and the Cabinet would need to keep their nerve. It would be important to avoid a continuing slide in the exchange rate which compelled them to make panic cuts in public expenditure. Such policy adjustments as might be needed should be considered rationally and sensibly, and if it were possible for the Chancellor of the Exchequer to accelerate any proposals he contemplated putting forward this would be desirable. The country still had a difficult 18 months to two years ahead of it, and he felt sure that the Labour Party would understand and accept this if the truth were put frankly. He underlined how important it was that all Ministers should comply with the Chancellor of the Exchequer's request to clear with the Treasury in advance any speeches they might make touching on the economy.

The Cabinet -

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

DISCUSSION DOCUMENT ON HUMAN RIGHTS

4. The Cabinet had before them a minute, dated 28 May, from the Home Secretary to the Prime Minister, to which was attached the text of a discussion document on human rights.

THE HOME SECRETARY said that the Cabinet, on 25 March, in the context of a threatened Motion by Lord Hailsham to refer to a Select Committee Lord Wade's Bill of Rights Bill, agreed to the publication of a discussion document on human rights based on the report of an interdepartmental working group which was already available. The text of the proposed discussion document had been fully considered by the Home Affairs Committee which had agreed that, subject to a small number of amendments which would appear in the final version now being printed, it was suitable for publication. The document was neutral in tone and neither entered into any commitments nor favoured any particular solution. It would, in his view, make a useful contribution to calm and informed debate of the issues involved.

THE LORD CHANCELLOR said that public interest in legislation to protect human rights had been stimulated by the publication of a Labour Party discussion paper on human rights and by Lord Justice Scarman's advocacy of a Bill of Rights. He did not believe that Lord Justice Scarman's views were representative of judicial opinion nor were they of his own since he took the view that human rights were already better protected in the United Kingdom than anywhere else and that it would be wrong to transfer Parliamentary responsibility for their protection to the courts. Nevertheless he agreed that publication of a discussion document in the neutral terms proposed would serve a valuable purpose provided that the document was published merely to assist discussion and not for the purposes of consultation which might lead to decisions.

In discussion, the view was strongly expressed that changes of the kind analysed in the document would be highly undesirable and make no contribution to the creation of a more just society. The changes had constitutional implications of a revolutionary character: they implied a written constitution which might or might not be entrenched but which would entrust to the courts decisions which were essentially the prerogative of Parliament. Chapter 3 of the document illustrated the range of sensitive issues on which the courts might have to pronounce; even without domestic legislation, there was already a possibility that judgments of the European Court of Justice on cases brought under the Convention on Human Rights might undesirably restrict Parliamentary sovereignty. On the other hand, it was argued that no-one in the United Kingdom could afford to take a complacent view of the adequacy of the existing protection of human rights. It was a very live issue in Northern Ireland where the Standing Advisory Commission on Human Rights was engaged in a study of the adequacy of existing legislation and where there were strong grounds for making some change; and, although the special

circumstances of Northern Ireland should not be allowed to influence constitutional decisions elsewhere, a number of minority and under-privileged groups in the United Kingdom as a whole did not see their rights as being adequately protected by Parliament.

THE PRIME MINISTER, summing up the discussion, said that given the commitment, which had been made in both Houses of Parliament, to publish a discussion document on human rights, the Cabinet agreed that the text circulated by the Home Secretary, subject to the amendments which the Home Affairs Committee had approved and which would be incorporated in the printed version, was sufficiently neutral in tone and was suitable for early publication. The presentation of the document should be in a low key and should imply no policy commitment or intention on the part of the Government to take decisions. On this basis it would be open to Ministers to express their individual views in any public debate of the major constitutional issues raised in the document.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Home Secretary to arrange accordingly for early publication of the discussion document.

Cabinet Office

10 June 1976

DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

(76) 9th
Conclusions

COPY NO 85

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
FRIDAY 11 JUNE 1976
at 10.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

ALSO PRESENT

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr G R Denman
Mr D L Pearson (Item 1)
Mr A K H Atkinson (Items 2-4)

CONTENTS

BRITAIN AND THE EUROPEAN COMMUNITY

1. The Cabinet had before them the following memoranda on Britain and the European Community:

A note by the Secretary of the Cabinet (C(76) 36) covering a paper by officials on British objectives in the European Community.

A memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 30) on the United Kingdom Presidency of the European Economic Community (EEC), January-June 1977.

A note and a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 28 and 29) on the enlargement of the EEC.

A note and a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 26 and C(76) 38) on the Tindemans Report.

THE FOREIGN AND COMMONWEALTH SECRETARY said that given the length of the agenda it seemed advisable to consider our objectives in the Community together with the Tindemans Report; the enlargement of the Community might seem a separate subject but could conveniently for the purposes of discussion also be grouped with the other topics since enlargement would materially affect the development of the Community and thus our objectives in it. He would in the autumn wish to bring before the Cabinet some views about our longer term objectives. In the meantime in terms of our short term objectives - covering the period up to and including our Presidency in the first half of next year - we had a number of positive aims. We attached great importance to a satisfactory revision of the Common Fisheries Policy - difficult though this negotiation would be. We wanted to keep discussion going of unemployment and of the transfer of resources from the richer to the poorer members of the Community. We would need to continue to press for the establishment of the Joint European Torus (JET) at Culham. We wanted to work for changes in the Common Agricultural Policy. And we needed to improve Community procedures. But we also had a number of negative aims in particular the avoidance of gratuitous harmonisation, for example in relation to tachographs, drivers' hours, passports, eviscerated chickens and summer time. All this placed us in a difficult tactical position. We would accordingly need in relation to such topics as direct elections and the Tindemans Report to play as positive and constructive a role as possible.

Direct elections was for consideration as a separate item on the agenda. The Tindemans Report had its origins in the questions asked by the then Prime Minister at the meeting of Community Heads of

Government in 1974 when it had become apparent that despite the commitment to European Union at the Summit of 1972 there was no clear understanding of what the term meant. Monsieur Tindemans had therefore been asked to report on the matter. It was to his credit that despite a number of unrealistic ideas in circulation his report had not sought to promote federation but had recognised the political facts of life and had taken as its basis existing Community institutions. Of the three main sections of the report that on economic matters had put forward the concept of a two tier Community and of the Snake as the centrepiece of Economic and Monetary Union (EMU). The first concept had not found favour and the second had been undermined when the French had had to leave the Snake. On external relations the report had suggested that the Community's successful efforts on the international stage could be built on by amalgamating political co-operation and Council Ministerial meetings; this we could welcome on a pragmatic basis. On institutions the report provided a reasonable basis for discussion and we need not be obstructive about a few minor changes. On the whole therefore and subject to the point which he had made about the two tier concept and EMU he hoped that his colleagues could give a general welcome to the report.

On enlargement the Cabinet had expressed a wish for a general discussion when it had considered the Greek application in February. Other applications were in prospect, notably those of Portugal and Spain. On the debit side it was clear that the economic and financial effects of enlargement would be bad; in particular the admission of these relatively poor countries would adversely affect the possibility of resource transfers to the United Kingdom from the wealthier countries of the Community. And Community decision making, already slow, would be made more difficult. But on the credit side admission of these countries would reinforce the tendency against federalism. Furthermore the effect of their exclusion on the maintenance or restoration of the democratic institutions of the applicant countries would be crucial. It would be disastrous if it emerged that a Labour Government had been associated with an attempt to keep these countries out.

The Foreign and Commonwealth Secretary asked his colleagues to note that he would later be circulating a memorandum on longer term strategy in the Community. In the meantime he asked for endorsement of the line proposed in relation to the Tindemans Report and the enlargement of the Community.

Enlargement

In discussion it was agreed that the question of enlargement was crucial to the future of the Community, and hence to the way in which our interests should be pursued within it. It was argued that enlargement had been taken far too lightly. The entry of a whole group of Mediterranean States with quite different attitudes to public administration and taxation would fundamentally change the whole balance and nature of the Community, would diminish our prospects of receiving resource transfers and might endanger German allegiance to the Community. On the other hand it was argued that despite the manifest difficulties, it was politically impossible to stand out against eventual membership of countries below the "olive growing line" particularly since the Treaty of Rome provided that membership of the Community was open to "European States". On this basis it would seem right that Greece, Portugal and Spain should enter if their democratic credentials were established: the European status of Turkey was however open to question. At the moment it seemed possible that Greece might enter the Community in 1980, and Portugal and Spain in the next few years thereafter, although it would probably be in our material interests for negotiations for Greek entry, and consideration of possible Portuguese and Spanish applications, not to proceed too quickly. The possibility could not however be excluded that in the interests of the North Atlantic Treaty Organisation (NATO) alliance, and in particular of the strengthening of its southern flank, the United States would use its influence to speed up the process.

A Community enlarged by the addition of Mediterranean countries, whose exports competed to some extent with those of developing countries, might become more inward looking than it would otherwise be. It would however also tend to develop in a confederal rather than a federal way, and this would not be without its advantages; in some ways it could be easier for us to work within such a framework. However with enlargement the tendency for the Community to develop into a two tier organisation might be strengthened. The smaller countries would resent any move to establish a Directorate of the major members: but there was useful scope for informal co-ordination between ourselves, the French and the Germans. It would not be easy, given the decline in our relative economic strength in the Community as shown by Annex A to the Note on British Objectives in the Community (C(76) 36), to carry in such co-ordination with France and Germany the weight appropriate to our interests; and it was important therefore for us to ensure that our relations with France and Germany were close at the highest level. With Germany the position was reasonably good; and the forthcoming State Visit of President Giscard to the United Kingdom might help in respect of France.

Enlargement also raised issues both within the United Kingdom and beyond the countries at present being considered for membership. Within the United Kingdom it would be desirable to keep in mind in the context of devolution the desire of many in Northern Ireland for direct representation in Brussels. More widely it was argued that in the context of enlargement the Community might ultimately be faced with the need to decide its attitude towards certain Eastern European countries. It was tempting to think that an enlarged but non-federal Community would be attractive to countries in Eastern Europe who were seeking to free themselves from Soviet domination and to Yugoslavia. This could however be a very dangerous concept to promote and speculation of this kind was premature and undesirable. In relation to the recommendations in the Tindemans Report on defence co-operation it was pointed out that undue emphasis on co-ordination among the Nine could have unfortunate effects on the wider cohesion of the NATO alliance particularly among the smaller European countries which were not members of the Community.

The Tindemans Report

In further discussion it was argued that while the prospects for enlargement had in some respects overtaken the perspectives for internal development sketched out in the Tindemans Report the general tendency of this report to urge increases in Community competence made it less acceptable than had been suggested. The report saw the development of direct elections to the European Assembly as a means of giving the Assembly legitimacy as a centre of Community decision making and legislation, presumably at the expense of national Parliaments. It was important to maintain and establish on the correct lines the relationship between Parliament in the United Kingdom and the Community. The present scrutiny arrangements, although more stringent than those in any country except perhaps Denmark, needed further review, and we should watch carefully any tendency for the development of majority voting in the Community on issues of importance in ways which might limit the authority of Parliament. Tindemans' proposal that the President of the Commission should have the right to appoint his colleagues would be a move in the wrong direction in relation to national Governments and Parliaments. On the other hand it was argued that for our tactics in the Community to be effective we needed to sound as "communautaire" as possible. In this context the Tindemans Report apart from its economic section was in general modest: and in further discussion the cautious but generally affirmative line in the memorandum by the Foreign and Commonwealth Secretary (C(76) 38) was broadly endorsed. It was suggested, however, that in the longer run it might be found that we need not be quite so opposed to the concept of the Snake as we were at present. It was

conceivable that when our rate of inflation had fallen further some value could be obtained from joining in arrangements which offered a greater prospect of exchange rate stability.

Objectives

The pursuit of our objectives in the Community depended on a proper recognition of British interests. It was generally accepted that countries would pursue their own interests in Community bargaining and through the collective action made possible by the Community. The French in particular pursued their interests doggedly, insistently and brilliantly. It was essential therefore that we should identify our strengths and use them as singlemindedly. The United Kingdom Presidency in the first six months of next year would place us in a powerful tactical position particularly in relation to the compromise proposals which the Presidency was traditionally expected to make. Substantial sums of money were now being disbursed from the Community Budget in the form of Monetary Compensatory Amounts which cheapened British imports of foodstuffs; this gave us an excellent bargaining counter to demand major reforms of the Common Agricultural Policy. The energy resources of the United Kingdom also gave us substantial bargaining power. The limitations placed by Parliament on the freedom of action of British Ministers could also be used as a source of strength in bargaining provided sufficient flexibility of detailed manoeuvre was also maintained.

From the British point of view the most promising developments to date had been in relation to external policy. We needed to bear in mind that our interests were not encapsulated in the internal development of the Community; 70 per cent of our trade was with countries outside. Despite some failures, of which the recent United Nations Conference on Trade and Development might perhaps be one, the establishment of common Community positions had proved very valuable. This had been particularly the case in relation to financial and monetary affairs. We should build on this, seek to make progress in particular in the field of the Common Commercial Policy and in relation to a more equitable distribution of Community aid to developing countries and concentrate less on an introverted study of arrangements within the Community. There were areas where internal harmonisation was both irksome and unnecessary. Further, in many cases it involved extensions of Community competence which we need not and should not accept. We should approach future consultations, for example about Company law, with this consideration in mind.

Some detailed proposals for objectives, including the development of ideas for further transfer of resources beneficial to us, were set out in C(76) 36. One area which deserved attention was that of economic policy where the absence of any coherent policy to deal with issues such as unemployment on a Community scale demonstrated a central weakness, exemplified also by the very small short term aid facilities available within the Community in relation to its size and wealth. Another need was for us to give some additional emphasis to social as well as to economic problems, and this could include the further development of consumer interests in Community decision making processes. Further areas were those of energy policy where the emphasis should be on establishing and co-ordinating interests and social policy where there might be advantage in bringing together the Community Ministers concerned.

In pursuing our objectives in the period up to and including our Presidency we should take what opportunities offered to improve the procedures of the Community. A more informal approach to discussion in the Council of Ministers, involving some give and take in debate, rather than the recitation of set speeches could usefully be encouraged, with the emphasis on national contributions rather than on papers from the Commission.

THE PRIME MINISTER summing up the discussion said that it had necessarily been wide-ranging but that it would provide valuable guidance for the Foreign and Commonwealth Secretary in further discussions within the European Community on the Tindemans Report and enlargement against the background of our own objectives. It would also provide guidance for himself and the Foreign and Commonwealth Secretary at the European Council in July. His first general conclusion was that we needed to take the Community seriously and to regard it as an important instrument which could be used to our advantage and which must therefore be taken into account in our formulation of all our domestic and foreign policies. He had been struck by a sentence shown him from a recent letter from a British official serving in the Commission which said about French attitudes -

> "As seen from my perch the French Head of State and his Ministers have no illusions about the Community and no very dynamic vision of the Community's future; but they know the Community well and take it very seriously as an area in which French interests can be defended and advanced. They work at it; they exploit it; they are not divided or half hearted about it."

This sentence contained a useful moral. It was true that in the past our approach had been half hearted. We must now make the Community dimension part of our departmental thinking and pursue this with the same determination as the French; but in so doing we

should also remember the need sometimes to cloak a hard position in suitably "communautaire" doctrine and phraseology.

It would be particularly necessary to take the Community dimension into account in the development of common Community positions particularly in the external field. The development of common positions rather than the promotion of artificial harmonisation would suit our interests best and there was reason to think that other member Governments, particularly the larger countries, were tending to take a similar view.

It was not entirely clear whether the Germans in saying that they would be willing to pay a price for greater unity were banking on the fact that greater unity would not arise (so that they would not have to pay) or were genuinely thinking in terms of some further transfer of resources from the richer to the less well off members in the interests of economic convergence. This question needed further exploration; but there now seemed to be a growing willingness in the Community, which from our point of view would be helpful, to relate the transfer of resources to economic convergence rather than monetary union.

Enlargement of the Community would involve some serious economic disadvantages but the majority of the Cabinet took the view that enlargement was inevitable. We should not seek to hasten it and we should ensure that our interests were adequately taken account of in the detailed negotiations, but we could not afford politically to seem obstructive. We should therefore move with the main body of the Community, neither in the van nor in the rear: above all we should take a "communautaire" attitude.

The British Presidency in the first six months of 1977 would place a considerable burden on the Foreign and Commonwealth Secretary and on the other Ministers concerned. The memorandum before the Cabinet (CP(76) 30) described the preparatory work which was going on. But the Ministerial Committee on European Questions should work out in advance, going beyond the procedural questions outlined in the memorandum, the positions which it would be advantageous for us to take up during our Presidency and submit a report to Cabinet in the autumn. The Ministerial Committee on European Questions should also consider how best to establish a link between the Community and the Commonwealth. A closer relationship between the Community and the Commonwealth could be helpful to the latter and could usefully advance British influence in both spheres.

In relation to democratic control of Community procedures the proposals which the Lord President had in preparation should be examined with care. But in considering possible changes it was necessary to bear in mind that Parliamentary scrutiny of Community affairs was already more exacting in the United Kingdom than in any other country of the Community except perhaps Denmark; we had to strike a balance between accountability and the need not to make our own negotiating procedures more inflexible.

In so far as longer term objectives in the Community were concerned the Foreign and Commonwealth Secretary would submit later in the year a memorandum to the Cabinet. In the meantime there would be a Parliamentary debate in the following week on developments in the Community, the Tindemans Report and related matters. The Minister of State for Foreign and Commonwealth Affairs (Mr Hattersley) who would be speaking for the Government would be guided by the discussion in Cabinet.

The Cabinet -

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

2. Invited the Prime Minister and the Foreign and Commonwealth Secretary to be guided accordingly in further discussions within the Community.

3. Invited the Foreign and Commonwealth Secretary to bring before the Cabinet in due course a memorandum on our longer term objectives in the Community.

4. Invited the Foreign and Commonwealth Secretary as Chairman of the Ministerial Committee on European Questions to bring before Cabinet in due course memoranda on

i. the handling of the British Presidency

ii. the development of a closer relationship between the Commonwealth and the Community.

COMMUNITY'S AGRICULTURAL PRICE-FIXING PROCEDURE

2. The Cabinet had before them a memorandum (CP(76) 31) by the Minister of Agriculture, Fisheries and Food covering a report by officials recommending improvements which might be sought in the procedure for fixing Community farm prices.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the recommendations in the report were in accordance with the conclusions of the Ministerial Committee on European Questions. A further report on our future strategy towards the Common Agricultural Policy (CAP) would be made after discussion in that Committee. Meanwhile it would be useful to try to secure the procedural improvements proposed. These were that the Commission should be urged to consult Member States and also consumer organisations more fully in drawing up the price proposals, and also to bring out more clearly the budgetary and resource costs; that we should propose a joint Agriculture/Finance Council to discuss agricultural support before the publication of the price proposals; that we should use our Presidency both to ensure consideration of a compromise package of our own and to organise the discussions more sensibly with time for reference to capitals before the final settlement; and that we should ourselves arrange for a clear remit for the negotiations and for participation by interested Departments.

In discussion there was general support for the recommendations in the report. In particular attention was drawn to the importance of improving the price-fixing procedure in view of the increasing impact Community farm prices would have on United Kingdom food prices and thus on counter-inflation policy as we approached the end of the transitional period. The fixing of prices by Community agricultural Ministers alone was not in accordance with our wider economic interests. The proposal for a joint meeting of Agriculture and Finance Ministers was therefore of particular importance for the United Kingdom. The Minister of Agriculture should report the outcome of his negotiations on procedure. As the major consumers of Community agricultural surpluses we were well placed to insist on the maintenance of monetary subsidies on our food imports, as an offset to the excessive weight at present given to the interests of producers, at any rate until we could secure adequate improvements in the CAP. In order to make the best use of the strength of our bargaining position we would need to work out our long term strategy for the future development of the policy and define our objectives not only for future farm price settlements but also for the agricultural content of the multilateral trade negotiations. Too much reliance should not however be placed on our holding the Presidency in 1977 to achieve our aims. It was important that the Minister of Agriculture should have precise instructions for the negotiations and be prepared to report back as necessary to his colleagues in the course of them.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the proposals in CP(76) 31 and invited the Minister of Agriculture to pursue them as appropriate within the Community. We were in a strong position to press our own interests in relation to the CAP and the Cabinet would wish to consider a further memorandum on our strategy towards the CAP before the end of the year.

The Cabinet -

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

2. Invited the Minister of Agriculture to bring before Cabinet in due course a memorandum on our strategy towards the Common Agricultural Policy.

DIRECT ELECTIONS TO THE EUROPEAN ASSEMBLY

3. The Cabinet had before them a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 25) on direct elections to the European Assembly.

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that the House of Commons in the debate on 29 and 30 March had expressed strong support for holding direct elections to the European Assembly. He understood that the Select Committee which had subsequently been appointed hoped to produce a report on 15 June which was likely to embody the following conclusions:-

a. A directly elected Assembly should have a membership of 350 to 425 members for the present Community of Nine.

b. There should be a minimum representation for small Member States but the distribution of seats between Member States should otherwise be as far as possible proportional to their population.

c. Direct elections should be held in the spring of 1978 but on subsequent occasions they should not coincide with national or local elections.

So far as the number and distribution of seats were concerned his own view was that the latest French proposal for retaining the present composition of the Assembly would fail to provide adequate representation for Scotland, Wales and Northern Ireland compared with the smaller Member States. He had therefore been seeking a compromise preferably on the lines of the Belgian proposal for an Assembly of 401 members. There was some pressure for reaching a decision before the Italian elections on 20 June but he considered it more important to be ready for a decision at the European Council on 12 and 13 July after the State Visit of President Giscard d'Estaing to the United Kingdom. If it should prove possible to secure a satisfactory agreement before then, it would be subject to approval by the Cabinet and Parliament. We needed to bear in mind that if we were to secure our own objectives in the Community it would be important not to impede progress on direct elections to which other Member States attached great importance.

In discussion it was pointed out that the National Executive Committee of the Labour Party wished a decision to be deferred until after the Party Conference. In any event direct elections held in advance of the next General Election might produce a Party balance different from that at Westminster with embarrassing consequences for the Government both at home and in the Community. To avoid such embarrassment there were strong arguments for deferring direct elections until a General Election and also insisting on a dual mandate, ie that British members of the Assembly should also be members of the British Parliament.

This would imply keeping the Assembly small and also reducing the participation of Members of Parliament in other international bodies in order to maintain the quality of the House of Commons. The significance for democracy of a directly elected Assembly should not be exaggerated, but there would be pressure to increase its powers. If we were to proceed to direct elections in 1978, this would involve legislation in 1976/77 which would clash with the devolution legislation and lead to serious constitutional and political difficulties. There would also be a risk of a clash with elections to the Scottish Assembly (which would have no voice in the European Assembly) and with local elections, which would place considerable burdens on Party organisations. It would be unwise for the Government to act in advance of a debate on the report by the Select Committee which was open to criticism both as to its composition and for the apparent haste with which it had reported. More thought should be given to the number and distribution of seats and in the meantime it would be prudent to support the French in seeking to delay progress towards direct elections.

On the other hand it was argued that lengthy deferment of direct elections would be a blow to democracy in Europe. The United Kingdom with its democratic tradition could expect to exercise a strong influence in a directly elected Assembly which would also act as a more effective check on the Commission. If we insisted on continuing to nominate members to an enlarged Assembly other Member States would find it impossible to proceed to direct elections. Nomination or indeed a dual mandate would impose a much greater strain on the manpower of the House of Commons than at present and the status of United Kingdom members would inevitably suffer. A possible alternative to the dual mandate would be for members of the Assembly to have non-voting membership of Parliament. Although the Select Committee had produced their report in the knowledge of the timetable of negotiations they had not been pressed to rush their proceedings. There was no need to fear that a directly elected Assembly would be a force for federalism in an enlarging Community provided that its powers remained strictly limited. Our aims for the number and distribution of seats had been fully considered and any attempt to shelter behind the French position would involve us in responsibility for blocking progress and so imperil our wider objectives. In any event no further commitment on the timing of direct elections or on the question of a dual mandate was proposed at this stage in advance of further discussion in the House and in Cabinet.

THE PRIME MINISTER, summing up the discussion, said that the Government's commitment to the principle of direct elections was not in doubt. It was unlikely that any settlement in the Community would be reached until the meeting of the European Council in July. In the meantime the clear majority of the Cabinet agreed with the proposal

in CP(76) 25 that he and the Foreign and Commonwealth Secretary should continue to negotiate on the lines set out in the Green Paper, in particular that they should not abandon our previous constructive stance and that they should seek a solution to the problem of the number and distribution of seats which would provide for adequate representation of the different parts of the United Kingdom. We had promised to use our best endeavours to proceed to direct elections by 1978 but there was no commitment on this and the practicability of doing so would be a matter for further consideration by Cabinet and by Parliament. Before the European Council on 12/13 July it would be necessary for the report of the Select Committee to be considered by Parliament and for Cabinet to have a further discussion.

The Cabinet -

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

THE EUROPEAN ECONOMIC COMMUNITY UNIFORM PASSPORT

4. The Cabinet had before them a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 27) on the European Economic Community uniform passport.

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that the European Council in December 1975 had agreed that a uniform passport should be issued by Member States from 1978. The passport would still be a national document issued by each Member State on its own authority. But we had made it plain that we could not issue a passport on these lines before our proposed nationality legislation came into force. The main issue for decision at this stage related to the design of the cover; various alternatives were attached to his memorandum.

In discussion it was argued that the introduction of a uniform Community passport would be politically unpopular since it would be seen as blurring the sense of our national identity which was traditionally symbolised by our national passport. It would be preferable to retain the present form of British passport, at least as an alternative to the uniform passport, and perhaps to arrange for a system of Community visas. It would be undesirable to accept an appearance of uniformity which had no underlying substance.

On the other hand it was pointed out that the uniform passport would remain in form and substance a national passport. There was a danger of exaggerating both the extent and the desirability of nationalist sentiment. Many people were not concerned with passports, but the uniform passport would be convenient for travellers in simplifying examination procedures at frontiers. It would also be welcomed by younger people.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed on balance with the proposals in paragraph 12 of CP(76) 27, save that the Foreign and Commonwealth Secretary should not accept a design other than design D in the annex to that memorandum.

The Cabinet -

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

2. Invited the Foreign and Commonwealth Secretary to be guided accordingly in further discussions in the Community.

Cabinet Office

14 June 1976

CM(76) 10th
Conclusions

COPY NO 85

# CABINET

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

THURSDAY 17 JUNE 1976

at 10.30 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

ALSO PRESENT

*Mr Michael Cocks MP*
Parliamentary Secretary, Treasury

SECRETARIAT

| | |
|---|---|
| Sir John Hunt | |
| Mr G R Denman | (Items 1 - 3) |
| Mr T F Brenchley | (Item 3) |
| Mr D le B Jones | (Item 4) |
| Mr J A Marshall | (Item 4) |
| Mr A D Gordon-Brown | (Items 1 and 2) |

CONTENTS

ARTICLE ON CHILD BENEFIT IN NEW SOCIETY

1. THE PRIME MINISTER said that the whole Cabinet would share his serious concern at the article on child benefit which had appeared in the issue of *New Society* dated 17 June. He could not recall any previous occasion on which there had been verbatim quotations in the Press of Cabinet documents, including two extracts from a limited circulation annex. There must have been either a theft of these documents, which seemed unlikely, or a deliberate betrayal of trust by a Minister, adviser or civil servant who had had access to the documents and had chosen this course rather than the honest course of resignation. If this could happen with impunity, then none of the Cabinet's business could be regarded as confidential. It was therefore most important that the person responsible should be identified. In view of the extremely serious nature of this incident he had in mind to announce in the House that afternoon the action which would be taken.

In discussion there was general agreement that this was a serious and deplorable leak, and that a statement by the Prime Minister in the House that afternoon would be appropriate. The disclosure of the views expressed to the Chancellor of the Exchequer by the six Trade Union Congress (TUC) representatives on the National Economic Development Council, who had made no public statement to the same effect, was particularly damaging, since it might affect the basis of trust on which such consultations with them were carried out. A rigorous investigation was required to discover the culprit; this was necessary both to minimise the risk of a repetition and indeed to lift the cloud of suspicion which would otherwise hang over all those who had had access to the Cabinet documents in question. The investigation might take one of two forms. The first would be an internal Government inquiry which, if successful, might lead either to disciplinary action against the person responsible or to a subsequent police investigation. Alternatively, the police might be asked to conduct the investigation from the start.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that there had been a serious leak and that there should be a full investigation. He would decide its form after consultation with the Attorney General and would make a statement in the House that afternoon. There were strict rules governing the handling of limited circulation annexes, which should be kept at all times in the Private Offices of Cabinet Ministers: it was important that these rules should be observed.

The Cabinet -

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

PARLIAMENTARY AFFAIRS

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

Aircraft and Shipbuilding Industries Bill

Previous Reference: CM(76) 8th Conclusions, Minute 1

THE PRIME MINISTER said that, since the previous week's discussion in the Cabinet, the Lord President, the Chief Whip and he had been giving a lot of thought to how to proceed. There were two objectives, to unclog the business and restore the usual channels, and to get the Government's essential legislation through. The first need was to restore the Government's majority. This should happen following the Rotherham by-election, although the illness of one Member could destroy the Government's overall majority. He had had informal contacts with Mrs Thatcher, who had been in a realistic frame of mind about the Government's likely course of action following the by-election. It had been agreed to ask the two Chief Whips to report by the end of the week on what had happened on 27 May, and he would contact Mrs Thatcher again next week to consider how, in the light of this report, the usual channels could be restored. One possibility would be in effect to re-run the issue on which the House had voted on 27 May, for instance by voting on the Opposition Motion to re-commit the Aircraft and Shipbuilding Industries Bill to a Select Committee, or on a Motion to re-commit those parts of the Bill giving rise to the hybridity issue. Meanwhile the Lord President and the Chief Whip had to arrange the business in a way which avoided problems, and time was being lost. Timetable Motions would probably be necessary on the Aircraft and Shipbuilding Industries, Dock Work Regulation, Education and Health Services Bills, and there would have to be a spillover lasting until mid-November or even later. This might limit the Chancellor of the Exchequer's freedom of manoeuvre and affect the Devolution Bill. He had had a meeting yesterday with all the Whips, who had reported that morale was good despite the difficulties.

THE LORD PRESIDENT OF THE COUNCIL said that the initiative taken with Mrs Thatcher had improved the situation, but it would be necessary to wait and see what the atmosphere was in the following week before deciding how to proceed. He and the Chief Whip had examined and were examining all the various possible ways of proceeding, but for the present planning must remain tentative. The objective was to get all the Government's legislation through, but this depended upon majorities for any timetable motions required. If the Government still lacked an effective majority after the Rotherham by-election, because of illness, it might even be necessary to wait until after the Thurrock by-election before being able to make progress on the most controversial Bills; but the Chief Whip was exploring whether there were any other possibilities.

THE PRIME MINISTER, summing up a brief discussion, said that no firm conclusions could yet be reached on the best way to proceed. The Cabinet noted that the possibility of resuming progress on some of the most controversial Bills depended upon the Government's having a majority. There were likely to be adequate majorities for timetable motions on the Education and Health Services Bills, but it would not be appropriate to take any timetable motions during the following week.

The Cabinet -

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

FOREIGN AFFAIRS

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Lebanon

3. THE FOREIGN AND COMMONWEALTH SECRETARY said that the latest atrocity in the Lebanon was the murder of the United States Ambassador, a senior member of his diplomatic staff and his Lebanese driver. It had been announced that suspects were being held, but it was not yet clear which of the many factions was responsible. The murders had been committed in a Moslem area according to information received by the United States Government. There were still about 800 British subjects in the Lebanon despite repeated warnings to them to leave, and about half of these were in Beirut. The Embassy were now organising two road convoys to Damascus to take advantage of the lull in the fighting. The first would leave the next day if the situation remained calm and the second on Saturday. The British Broadcasting Corporation had broadcast announcements of these arrangements. If the airport, which had been closed, reopened some British subjects might also leave by air. The Embassies of the United States and of our European Economic Community partners had been kept informed. The Americans had in the past been opposed to evacuation by road, but following the murder of their Ambassador it now seemed that some American subjects might join our convoys. More generally, although the situation was somewhat quieter, political tension remained and the risk of further violence persisted. There had been no military reaction from the Israelis to the entry into the Lebanon of Syrian forces, nor to the planned entry of Arab League forces. They were no doubt keeping a close watch on developments which might affect the Lebanon/Israel frontier area.

Angola

Previous Reference: CM(76) 8th Conclusions, Minute 2.

THE FOREIGN AND COMMONWEALTH SECRETARY said that in addition to the presence of an official observer from his Department at the trial in Luanda, there was now also an unofficial group of British lawyers participating in the defence of the British mercenaries. The situation was most unsatisfactory, both because of the nature of the court proceedings and because it was increasingly being suggested that the British Government had connived at the recruitment of mercenaries, an allegation which was totally untrue. It seemed likely that the trial would end with the pronouncement of death sentences, but it was not clear whether they would be carried out. The Foreign and Commonwealth Office had prepared contingency plans for the various conceivable outcomes, and its News Department was giving the subject priority attention.

The Cabinet -

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

Chile

THE PRIME MINISTER said that the Defence and Oversea Policy Committee (DOP) had been reviewing policy towards Chile and he thought it right to report their conclusions to the Cabinet. The Government's policy on Chile had been a tough one and our record internationally was good. Their reaction to the torture of Dr Sheila Cassidy had been firm. It had comprised his own protest, as Foreign and Commonwealth Secretary, to the Chilean Government, the recall of our Ambassador from Santiago and the submission of Dr Cassidy's evidence to the United Nations Human Rights Commission's Working Group on Chile. This action had met with widespread approval. The conclusion of DOP was that this policy should continue and that we should intensify vigorous action on the issue of human rights, for example at the United Nations, in concert with other like-minded Governments, particularly of the European Community. But DOP did not think it right to proceed to the point of breaking off diplomatic relations completely. The work which our Embassy in Santiago could do for Chilean prisoners and refugees was well known and valuable. On defence sales the Government's policy had been to fulfil inescapable existing contracts for warships and to deliver spares and equipment relating to those contracts, but to grant no new export licences for arms - in short to do what we were obliged in law to do but no more. This policy had been approved by the Cabinet on 9 April 1974 (CC(74) 9th Conclusions, Minute 5) and announced to Parliament on 10 April 1974 (Hansard Col. 155 written). Against this background DOP had considered whether, as a means of bringing additional pressure on Chile following the case of Dr Cassidy, we could stop delivery of the two submarines still being made ready for Chile in this country. In law the position was that termination of these contracts could be justified only if the submarines had not passed into Chilean ownership and provided the Chileans were behind on their payments for the submarines. On the latter point the 1976 payments were up to date but there was still an arrears on the 1975 payments for the submarines. In 1975 the Government had decided not to join in the rescheduling of Chile's 1975 debt (CC(75) 10th Conclusions, Minute 2): while still rejecting rescheduling, we had accepted a payment from Chile last year on account of their total 1975 debt and we expected to receive a further payment on the same basis this year, but there would however still remain an arrears of about £800,000 on the payments due to us in 1975. The first of the submarines, the O'Brien, was now a Chilean ship and DOP had to conclude reluctantly that she had immunity and that legal action to prevent her from sailing to Chile would not succeed. The second submarine, the Hyatt, was not yet legally a Chilean warship. It was, therefore, open to the Government in law to prevent her from sailing to Chile so long as Chile was in arrears in her payments for the submarines. The trade unions concerned would probably be opposed to stopping the submarine, and the penalties of doing so could be severe, particularly if as a result Scott Lithgow, the building yard, lost other foreign orders which they might otherwise have secured. Nevertheless DOP had decided that we should maintain a lien on the

Hyatt so long as Chile remained in arrears on her payments; that we should inform the Chileans that we were taking this action; and that meantime we would take steps to ensure that the Hyatt did not acquire legal immunity as a warship. The Chileans had accordingly been informed that a serious situation would arise unless they paid the arrears on the submarines: we awaited their reactions. DOP would be reconsidering the action to be taken on the Hyatt when fuller information was available on this point and on the practical problems which would be involved in preventing acquisition of legal immunity by the Hyatt. There was one other outstanding issue. This was the supply of a quantity of naval ammunition and Seacat missiles which formed part of the spares and equipment of the two frigates which had already been delivered to Chile. Reference had been made to these items in a note on assistance to the Chilean armed forces circulated to the Cabinet in May 1974 (under C(74) 36). Earlier this year DOP had decided to postpone the delivery of the ammunition and missiles in order to underline to the Chilean Government the strength of public feeling in this country following the Cassidy case. On the other hand the firm view of the Attorney General was that we would not be justified in withholding delivery completely. He had advised that for the Government to refuse to supply or to prevent the supply of the ammunition or missiles could not be justified in domestic or international law or on the basis of good faith. It was also of course the case that the statement of Government policy made in April 1974 had made clear that the supply of spares and equipment relating to existing shipbuilding contracts would be allowed and that the ammunition and missiles fell into this category. The majority of DOP had supported the view that for these reasons we had no alternative but to supply these items to Chile, distasteful though it would be to do so. In view of the sensitivity of the issue however he had undertaken to report DOP's conclusions to the Cabinet.

The Cabinet -

2. Took note of the statement by the Prime Minister.

PUBLIC SECTOR PENSIONS

4. The Cabinet had before them a memorandum by the Lord Privy Seal (CP(76) 32) about the 1976 increase in public service pensions.

THE LORD PRIVY SEAL said that under the Pensions (Increase) Act 1971, public service pensioners had their pensions increased in December each year by the percentage rise in the Retail Prices Index over the 12 months ending in the previous June. Those covered by this included civil servants, Members of Parliament, teachers, the Armed Forces, National Health Service and Local Government employees, police and firemen. Because of the high rate of inflation in 1974-75, the increase in December 1975 had been 26 per cent, and this had attracted public criticism. The Ministerial Committee on Economic Strategy had considered whether the Government should take steps to intervene in the established machinery so as to modify the increase which would become due in December 1976, and which was expected to be about 13-14 per cent. The majority view in that Committee was that no modification should be made, but it was agreed that the question should be referred to Cabinet. He urged strongly that, if the increase was to be modified, it would be important not to act selectively against the public service alone, but to cover also the private sector. This would involve a change in the rules at present operated by the Inland Revenue governing the approval of pension schemes. These enabled pensions to be based on notional salaries, so that, eg one entitled to a pension equal to two-thirds of their salary, and in receipt at the age of retirement of a salary of around £20,000 a year, would be allowed to have a pension based on a notional salary which, uplifted by increases in the retail prices index, could be as much as £34,000 a year. He reminded Cabinet that the 1971 Act was regarded as of great importance by the Staff Side, who would certainly strongly oppose any change. The Trades Union Congress (TUC) would need to be consulted; and it was worth noting that there had never been any pressure from the TUC on this point - indeed, their attitude had rather been that pensions were not affected by pay policy. If Cabinet favoured some modification, it should be only for one year, and legislation would need to be passed before the summer Recess. He did not himself think it would be right to restrict increases to the £4 limit which was the maximum under the second round of the pay policy, which would affect 15-20 per cent of all public service pensioners. In his view the choice was between applying a £6 limit (ie as in the current round of pay policy) which would affect 5 per cent of pensioners, or operating a complete cut-off for increases to pensions of £8,500 a year or more (that being the cut-off point in the current round of pay policy). The latter would be likely to affect only about 75 pensioners, and save only £90,000 a year although he appreciated that it was the larger increases for the better-off pensioners that attracted critical attention. The

arguments were finely balanced and his official advisers were indeed in favour of some action on a one-year only basis. After very careful consideration however he had himself come to the conclusion that the Government should not interfere with the operation of the statutory arrangements for increasing public service pensions.

In discussion the view was expressed that if the practical difficulties were not over-riding the prospective increase should be restricted in some way, and also that it would be desirable to discuss the question with the Parliamentary Labour Party. However, there was also widespread agreement that, whatever the merits of the arguments might be, the practical difficulties of intervening in the established arrangements were overwhelming. It would be unfair to restrict the pensions of public service pensioners without doing the same to pensions of retired employees of the nationalised industries; but a firm commitment had already been given that the pensions of retired miners would be increased in line with established practice. Admittedly there was some public feeling on the issue, but this was due to the Press campaign against the Civil Service rather than any pressure from the TUC. It could in fact be argued that it would in principle be wrong to treat pensions like pay, since the pay policy was avowedly egalitarian in its aim and the Government had from the beginning exempted retirement incomes from it because they wished to re-distribute income in favour of the pensioner. The most logical modification would be to cut off increases at £8,500 and above, but this would in practice be only a presentational device, and it would be quite unacceptable unless it covered all pensions, private and public, which would in practice be virtually impossible. It was noted that the new State pension scheme to be brought in from 1978 had inflation-proofing built into that part of the pension which was paid by the State, and it would be perverse for the Government to prevent the private sector from providing similar cover in respect of the private part of the pension. Furthermore, the TUC had tried to argue that old age pension increases should be linked to increases in earnings, an argument which had been resisted but which would be much more difficult to resist if the present link with prices were broken. In any case, the problem of very large relative increases in public sector pensions would be greatly reduced as the Government's counter-inflation policies succeeded. The case for legislation was therefore a disappearing one.

THE PRIME MINISTER, summing up the discussion, said that there was a clear majority in Cabinet in favour of taking no action to interfere with the increase in pension which would be payable in December under the Pensions (Increase) Act 1971. This decision would, however, require care in presentation. Emphasis would need to be laid on the fact that the rate of inflation was declining;

that the increase involved was less than that which would be given this year to the old age pensioner on social security; and that 95 per cent of the public service pensioners involved would in fact get less than the £6 which was the maximum under the current round of pay policy for persons in employment. The Cabinet accepted that, however desirable it might be, it was not possible to legislate to restrict the increases for the remaining small group-

The Cabinet -

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

2. Agreed with the conclusion in CP(76) 32.

3. Invited the Lord Privy Seal to be guided by the Prime Minister's summing up in handling the presentation of their decision.

Cabinet Office

17 June 1976

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(76) 11th
clusions

COPY NO 85

CABINET

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

THURSDAY 24 JUNE 1976

at 10.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

Rt Hon Michael Foot MP
d President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

Rt Hon Roy Jenkins MP
etary of State for the Home Department

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

Rt Hon Shirley Williams MP
etary of State for Prices and Consumer
ection and Paymaster General

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

Rt Hon Eric Varley MP
tary of State for Industry

The Rt Hon Peter Shore MP
Secretary of State for the Environment

Rt Hon Roy Mason MP
tary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

Rt Hon John Morris QC MP
tary of State for Wales

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

Rt Hon Albert Booth MP
tary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

Rt Hon David Ennals MP
tary of State for Social Services

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

Rt Hon Lord Shepherd
Privy Seal

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

| | |
|---|---|
| The Rt Hon Reginald Prentice MP<br>Minister for Overseas Development | The Rt Hon John Silkin MP<br>Minister for Planning and Local Government |

THE FOLLOWING WERE ALSO PRESENT

| | |
|---|---|
| Mr Michael Cocks MP<br>Parliamentary Secretary, Treasury | The Rt Hon Joel Barnett MP<br>Chief Secretary, Treasury<br>(Item 3) |

SECRETARIAT

| | |
|---|---|
| Sir John Hunt | |
| Mr G R Denman | (Items 1 and 2) |
| Mr T F Brenchley | (Item 2) |
| Mr D le B Jones | (Items 3 and 4) |
| Mr J A Marshall | (Items 3 and 4) |
| Mr A D Gordon-Brown | (Item 1) |

CONTENTS

PARLIAMENTARY AFFAIRS

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

Supply Day Debate on Child Benefit

THE LORD PRESIDENT OF THE COUNCIL said that the Opposition had chosen Child Benefit (CB) as the subject for the Supply Day debate on 28 June, and this debate was expected to take place on a Motion for the Adjournment. If the Opposition were to table a substantive motion for debate the Government would be in considerable difficulty. The Government might well be defeated even in a vote on the Adjournment Motion, and the best course might be to accept the Adjournment.

In discussion it was suggested that the acceptance of the Adjournment in such circumstances would be unexpected, perhaps unprecedented, and might be seen as a trick to avoid defeat. Demands might then follow for a change of Government policy on CB to reflect this decision of the House, and the atmosphere for the following day's debate on the Aircraft and Shipbuilding Industries Bill might be spoilt. It might therefore be better to have a vote, despite the difficulties. This would require a statement of the Government's position on CB, or an amendment to any substantive motion tabled by the Opposition, in terms calculated to secure the support of all Government backbenchers for the vote. On the other hand it was argued that because of the strength of feeling on this issue among the Government's supporters, the Government would be likely to suffer a heavy defeat in any vote which followed the debate. If the Opposition chose to have a very general debate on the Adjournment they could not very well object if the Government accepted the motion, provided that a clear explanation had been given in the debate that this was because there was no question arising from the debate on which to divide the House. The principle of the CB scheme would not be at issue, only the pace of its implementation.

THE PRIME MINISTER, summing up the discussion, said that a substantial majority of the Cabinet agreed that the right course would be to accept the Motion for the Adjournment. Careful thought should be given to the way in which the Government's position was presented in the debate, and to how the Government should respond to any subsequent demands for a further statement of policy. The Government's commitment to implementing the CB scheme, which had been placed on the Statute Book by Government legislation in the previous Session, should be reaffirmed; but he had informed the Liaison Committee that it would not be possible to introduce the full CB scheme in 1977 or 1978, and particular care would be needed on what was said on timing. The Secretary of State for Social Services should let him see the text of what he proposed to say.

The Cabinet -

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

Aircraft and Shipbuilding Industries Bill

Previous Reference: CM(76) 10th Conclusions, Minute 2

THE LORD PRESIDENT OF THE COUNCIL said that the Opposition proposed to put down a Motion, before the debate on 29 June on their Motion to recommit the Aircraft and Shipbuilding Industries Bill to a Select Committee, that in the event of an equality of votes in a division on the recommittal Motion, the Speaker should declare the Motion carried. This was a proposal to change the rules, by instructing the Speaker to use his casting vote in a way contrary to the precedents, and was open to strong constitutional objections. It was open to the Government to decline to provide time to debate this new Motion; but the Opposition attached importance to it, and it would be possible to meet their wishes by allowing it to be debated - probably as part of the debate on the recommittal Motion - with a view to securing its defeat on a vote. It was not yet known how the minority parties would be likely to vote.

In discussion it was pointed out that the Government's principal aim was to restore the usual channels, and this would best be done by winning a rerun of the disputed vote of 27 May without having to rely on the Speaker's casting vote. However, while there seemed no way in which this could be achieved, all the indications were that the Leader of the Opposition and the Opposition Chief Whip genuinely wanted a resumption of normal relations. The idea of a Motion on the Speaker's casting vote, which had not been raised until after the Prime Minister's statement of 22 June, was probably intended to satisfy Opposition backbenchers; but it would evidently help relationships with the Opposition if the Government agreed that this Motion should be debated. The Government would then be able to deploy the cogent constitutional arguments against the Motion, and it seemed likely that at least some of the minority party members would vote against the Motion. If the recommittal Motion was then defeated only on the Speaker's casting vote, the fact that the House had just endorsed the view that the Speaker should be left to cast his vote in accordance with precedent would strengthen the Government's position. The case against the Opposition's new Motion could be deployed most effectively if it were to be debated and voted on separately from the recommittal Motion, but this might not be practicable. The two Motions were closely linked and could reasonably be debated together.

In the course of further discussion concerning the prospects for the remainder of the Session, THE LORD PRESIDENT said that, although there would clearly be difficulties, he was not too despondent about the prospects of being able to complete the Government's legislation. The Opposition had agreed that the remaining stages of the Education Bill should be completed during the following week without a timetable Motion, and he hoped to obtain a similar agreement on the Dock Work Regulation Bill the week after. He was strongly opposed to any suggestion that one of the Government's major Bills should be dropped, which would be received very badly by Government supporters. But for the present it would be necessary to take business which could be obtained without a timetable Motion, so as to maintain a calm atmosphere. It was not, in any event, possible to take a timetable Motion on the Aircraft and Shipbuilding Industries Bill at present. He accepted that such a Motion might be needed on the Health Services Bill, to ensure that the Committee Stage was completed sufficiently soon.

THE PRIME MINISTER, summing up the discussion, said that the Conservatives were likely to run into trouble over their Motion to require the Speaker to vote contrary to the precedents, and the general sense of the Cabinet's discussion was that the Government should allow time for this Motion to be debated on 29 June. It would be necessary first to ascertain how the minority parties would be likely to vote. The Lord President and the Chief Whip had discretion to decide whether this Motion could be debated and voted on separately, before the debate on the recommittal Motion, or whether the two Motions should be debated together.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of their discussion, and invited the Lord President of the Council and the Chief Whip to proceed accordingly.

Report of the Select Committee on Direct Elections to the European Assembly

In discussion of the business proposed for Friday 2 July, the debate on the Motions to renew the Northern Ireland Direct Rule and Emergency Provisions legislation, the points were made that it was desirable to hold this debate as far as possible in advance of the beginning of the Northern Ireland marching season on 12 July; but that, if the debate on the report of the Select Committee on Direct Elections to the European Assembly could not be held on 2 July, there might be no opportunity to debate the report before the Cabinet's discussion on 8 July of the line which the United Kingdom should take on this issue at the European Council on 12 and 13 July.

THE PRIME MINISTER, summing up a brief discussion, said that the debate on the Select Committee's report would be one of a long series of debates on this subject, and he and the Foreign and Commonwealth Secretary accepted that it might not be possible to hold this debate until Friday 9 July. The Lord President of the Council would, however, consider whether there was any way of arranging for the debate to take place before the Cabinet's discussion on 8 July.

The Cabinet -

3. Took note.

FOREIGN AFFAIRS

Lebanon

Previous Reference: CM(76) 10th Conclusions, Minute 3

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the situation in the Lebanon remained extremely confused. However, all British subjects in the Lebanon who wished to leave the country had now had an opportunity to do so: those remaining were doing so for their own purposes and in full knowledge of the risks.

The Cabinet -

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

France

THE PRIME MINISTER said that the atmosphere of his talks with President Giscard d'Estaing had been good. The French President had clearly been anxious to improve relations with this country. A Joint Declaration had been issued providing that the two Heads of Government, accompanied by other members of their Governments, would meet annually: and also for periodic meetings of specialist Ministers. President Giscard had himself clearly been more impressed than he expected with the progress we were making in reducing the rate of inflation and had also come to recognise the importance of our contribution to the North Atlantic Alliance. There seemed no doubt that French defence policy was moving closer to co-operation with the North Atlantic Treaty Organisation (NATO) even though that fact could not yet be publicly admitted. In the industrial field President Giscard had made it clear that the French were willing to co-operate with us. The Foreign and Commonwealth Secretary had emphasised the importance we attached to fisheries matters and the President undoubtedly had now a better understanding of our position; an important practical consequence was that, contrary to the line which French officials had taken hitherto, he had agreed to bilateral discussions on the matter at official level. On direct elections to the European Assembly, President Giscard had not gone so far as to agree to a new formula which the Foreign and Commonwealth Secretary had put to him, but he had shown signs of movement and had finally said that he would not take the lead in opposing a solution which would permit adequate representation of Scotland and Wales.

In a brief discussion attention was drawn to the likelihood that French opposition to a minimum support price (msp) for oil would mean that no progress on a European Economic Community energy policy would occur before we entered our period of Presidency on 1 January 1977. It was suggested that the arrangements discussed between the Prime Minister and President Giscard for meetings between British and French Ministers gave an opening for inviting

the French Minister concerned to come to London for talks with the Secretary of State for Energy. These talks need not be confined to msp: there were other energy matters of common concern, for instance research and development in the nuclear energy field.

THE PRIME MINISTER said that he had raised the question of msp privately with President Giscard. Although the latter had not been willing to admit that he had actually undertaken to support an msp in return for our concession on a separate seat at the Conference for International Economic Co-operation (CIEC), he had agreed that this was the spirit of the compromise which had been reached in those discussions. He had also agreed that the msp, although in his view unlikely to be of practical significance in regulating prices, could be a major factor in giving confidence to investors. A possible invitation to the French energy Minister to visit London was worth following up, but it would be wise to postpone a decision until the impact of President Giscard's visit could be seen more clearly.

The Cabinet -

2. Took note of the statements by the Prime Minister.

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There was a brief discussion of the outcome we should like to see from the summit meeting to be held at Puerto Rico. It was argued that, although the world economic situation looked much more favourable than at the time of the Rambouillet Conference, this appearance might in part be deceptive. There was a danger that the progress which had been made might not be sustained unless it were reinforced. It was therefore desirable that the communique at the summit meeting should come out firmly in favour of measures to maintain world demand. Particular matters which might be discussed in this context were the Americans' failure so far to ratify the Organisation for Economic Co-operation and Development Trust Fund, which they themselves had initiated, and the need to make progress in the multilateral trade negotiations as soon as the American elections were over. Although it was inevitable that the President of the United States, Mr Ford, would be limited in entering into commitments by his need to avoid offending his domestic audience during the election period, there were nevertheless some undertakings he could make which would be helpful to him as well as to ourselves.

THE PRIME MINISTER, summing up the discussion, said that he would bear in mind the points made in the discussion. He hoped that the Economic Summit would provide a forum for useful discussion of the world economic situation and particularly perhaps of North/South problems. But it had to be admitted that it contained elements of electioneering so far as both the United States and Germany were concerned. For that reason it would be over-optimistic to expect any really important decisions to emerge from it.

The Cabinet -

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

COUNTER-INFLATION WHITE PAPER

3. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 33) to which was attached a draft of a White Paper: "The Attack on Inflation - the Second Year".

THE CHIEF SECRETARY, TREASURY said that the draft embodied the decisions on pay policy and on prices policy which had been taken through the established Committee machinery. The draft had been prepared under the guidance of a Ministerial Group under the chairmanship of the Chancellor of the Exchequer. There were no general points to which he thought it necessary to draw Cabinet's attention.

The Cabinet then considered the draft White Paper paragraph by paragraph. In the course of discussion the following points were made -

a. In paragraphs 3-5, the reduction of unemployment should be given priority over the other two objectives listed, so that stress could be laid on the human factor in the Government's policies. Ministers should later consider the problems of school leavers and young people.

b. In paragraph 8, the figure of 35 per cent should not be quoted. The text should simply say that the inflation rate had been more than halved to $15\frac{1}{2}$ per cent.

c. The Government should be ready, after publication of the White Paper, to make a statement that the White Paper did not necessarily mean that stage payments previously promised but withheld under Stage 1 to doctors, dentists, senior public servants, etc. would be paid under Stage 2.

d. The sub-headings in the White Paper were not wholly satisfactory - eg although paragraph 23 et seq were headed "Prices", the Price Code changes were in fact in the section headed "British Industry".

e. Paragraph 30 might subsequently be held to be misleading if it were later argued that it gave warning of a lower level of public expenditure than that agreed in the 1975 Public Expenditure Review. It was noted however that the wording reflected what had been said after the Chequers meeting of the National Economic Development Council on industrial strategy. The wording should therefore be left unchanged but the Chancellor of the Exchequer should if necessary when introducing the White Paper make it clear that it followed the Chequers statement.

f. Paragraph 39 was unduly cataclysmic in tone, and the Chancellor of the Duchy of Lancaster undertook to prepare a revised version.

The Cabinet agreed a number of minor drafting changes to the text of the White Paper.

THE PRIME MINISTER, summing up the discussion, said that, subject to the changes which had been agreed, and to the further minor changes which would be made in the light of the discussion, the Cabinet were content with the draft White Paper before them. They agreed that it should be published in the following week.

The Cabinet -

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

2. Invited the Chief Secretary, Treasury to arrange for the White Paper to be amended in accordance with the points raised in discussion, and to be published in the course of the following week.

FUTURE OF THE PRICE CODE

4. The Cabinet had before them a note by the Secretary of State for Prices and Consumer Protection and Paymaster General (CP(76) 34) to which was attached the explanatory section of the Consultative Document on the changes to the Price Code which was due to be published the following week.

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION AND PAYMASTER GENERAL said that the amendments to the Price Code contained in the Consultative Document would carry out all of the points which had been made in the Prime Minister's recent speech to the Confederation of British Industry. Present intentions were that the Consultative Document should be published on 30 June, which would leave only two weeks for consultation. Since the Affirmative Order could not be debated in Parliament before October, it would be highly desirable to have a two day debate on the Counter-Inflation White Paper in the course of July.

In discussion it was pointed out that paragraph 39 of the explanatory section of the Consultative Document would make it necessary for the Secretary of State for Industry to ask the Post Office to reduce their telecommunications prices to an extent which would lose them revenue of some £140 million in 1976-77, which would represent a net addition to the public sector borrowing requirement. This was a situation which the Government should not contemplate, particularly when a major review of telecommunications strategy was just coming forward for Ministers' consideration the following week. Paragraph 39 should therefore be amended in order to avoid this necessity, and instead the Post Office should be told that in addition to the stabilisation of charges which they had already announced, they should agree that there would be no increase in telecommunications charges before August 1977.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed in principle that it would be wrong to get into a position in which price cuts had to be pressed upon the Post Office. The Secretary of State for Industry and the Secretary of State for Prices and Consumer Protection should therefore agree on a redraft of paragraph 39 to avoid this result. The consultative document as so amended should be published in the following week. On the question of the Parliamentary debate, Cabinet recognised the desirability of two days on the Counter-Inflation White Paper, so that both prices and pay policy could be discussed; but the Parliamentary programme was of course subject to a great deal of pressure, and this was a matter which the Lord President would have to consider.

The Cabinet -

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

2. Invited the Secretary of State for Prices and Consumer Protection, in consultation with the Secretary of State for Industry, to amend the Consultative Document in such a way as to ensure that the Government was not in a position in which they had to press price reductions upon the Post Office.

3. Invited the Secretary of State for Prices and Consumer Protection to arrange for the Consultative Document as so amended to be published in the following week.

Cabinet Office

24 June 1976

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CM(76) 12th Conclusions

COPY NO 85

# CABINET

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

THURSDAY 1 JULY 1976

at 10.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin MP
Attorney General

Mr Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

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|---|---|
| Sir John Hunt | |
| Mr G R Denman | (Item 2) |
| Mr T F Brenchley | (Item 2) |
| Mr W I McIndoe | (Items 1 and 3) |
| Mr A D Gordon-Brown | (Items 1 and 4) |

CONTENTS

PARLIAMENTARY AFFAIRS

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

THE LORD PRESIDENT OF THE COUNCIL said that he recognised that timetable motions would probably be needed on several Bills. Discussions were, however, still taking place with the Opposition on the restoration of the usual channels, which was the Government's first priority. He was not proposing to take any timetable motions next week in view of their possible harmful effect on relations with the Opposition; and any such motions would have to be taken at a time when the Government could be sure of the necessary majorities.

THE PRIME MINISTER informed the Cabinet of the statement which he intended to make in the House of Commons that afternoon about investigations into the disclosure of information to the author of the article on child benefit which had appeared in New Society.

The Cabinet -

Took note.

FOREIGN AFFAIRS

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Economic Summit

2. THE PRIME MINISTER said that he had little to add to the statement he had already made to the House of Commons. He had had very useful bilateral talks with the President of the United States, Mr Ford, whom he regarded as an underrated man and who had shown himself extremely friendly to the United Kingdom. He had made clear to the Japanese Ministers our views about the growth of Japanese exports.

The Cabinet -

1. Took note of the statement by the Prime Minister.

Visit to Bonn

THE PRIME MINISTER said that he and the Foreign and Commonwealth Secretary had visited Bonn the previous day for talks with the Federal German Chancellor and the Foreign Minister, Herr Genscher. The talks had gone very well. On the morning of their arrival Herr Schmidt had paid a tribute in the Bundestag to

the success of our incomes policy and it was evident in the discussions with German Ministers that there was clearly now a greater understanding of the success of our efforts to deal with inflation. The talks had been frank and useful and had been marked by one interesting innovation. British and German Ministers had been joined for over an hour by members of the Bullock Committee on Industrial Democracy who were visiting Germany and by a number of German trade union and employer representatives. In the course of a frank and useful discussion Herr Schmidt had stressed that codetermination had played an indispensable role in the development of the German economy. Herr Schmidt had showed that he shared our dislike for aspects of the Common Agricultural Policy (CAP) although he had to bear in mind that his Minister of Agriculture, Herr Ertl, belonged to the other Party in the coalition. The Federal Government faced the growing problem that Article 115 of the Basic German Law allowed the Federal Government to run a budgetary deficit only when the economy was out of balance. Herr Schmidt thought it likely that after the Federal German elections in October, which he expected to win although possibly with a reduced majority, the Opposition would make play with this constitutional provision in order to eliminate the budget deficit. This would mean stringent limitations on German contributions not only to the CAP but also to aid to non-associates and would not ease discussion of the problem of offset. It would be necessary to take account of the development of German thinking in our next review in October/November of British aims in next year's CAP price review. Herr Schmidt had expressed a preference for our former system of price support but it was necessary to bear in mind that he would probably not wish to press this view to the point of a major quarrel with President Giscard.

The Cabinet -

2. Took note.

SPEAKER'S CONFERENCE ON ELECTORAL LAW

3. The Cabinet considered a memorandum by the Home Secretary (CP(76) 37) dealing with the question of electoral reform and distribution of seats in relation to the terms of reference of the Speaker's Conference on Electoral Law and also with the composition of the Conference.

THE HOME SECRETARY said that the Cabinet at their meeting on 18 November 1975 had decided that the Government should not take any initiative to refer electoral reform to the Speaker's Conference. The Liberals and, less strongly, Plaid Cymru had now, in response to the Prime Minister's letter of 13 April to the Leaders of the other

Parties, asked for its inclusion in the terms of reference. The question was whether the Cabinet, in the light of these requests, wished to alter their earlier view. Although he himself had favoured its inclusion at the earlier discussion, he was not inclined to press this.

The Leader of the Opposition had asked for the inclusion of Rule 1 in Schedule 2 to the House of Commons (Redistribution of Seats) Act 1949 on the grounds that this had led to serious under-representation of England in the United Kingdom Parliament relative to Scotland and Wales. The Secretary of State for Northern Ireland was opposed to any review of the number of seats in Northern Ireland at the present time; and there were grounds for thinking that a review would also be premature in relation to the Government's devolution proposals for Scotland and Wales. He therefore proposed that the Government should decline to accede to the Leader of the Opposition's request.

On the composition of the Conference, the Speaker himself had asked whether it would be possible to reduce the number of the larger Parties in order to accommodate all the smaller groups. The composition at present proposed was 15 Labour, 12 Conservatives, 1 Liberal and 1 Scottish National Party (SNP). The Secretary of State for Northern Ireland had indicated that he would like to see Ulster Unionist representation and he himself considered that, on the whole, it would be sensible to respond sympathetically to the suggestion that the representation should be somewhat widened, particularly since the Speaker himself had made it. To do otherwise might get the Conference off to a bad start. But the matter was primarily one for the Lord President and the Chief Whip, in consultation with the other Parties.

Electoral Reform

In discussion, the view was expressed that the Conservatives were as much opposed to electoral reform as the Labour Party, and, given public interest in the subject which had been further stimulated by the recent report of the Hansard Society Commission, there might be much to be said for disposing of the issue, which was likely to become more difficult with the passage of time, by referring it to the Speaker's Conference. On the other hand, it was argued that there were grave risks in putting to the Speaker's Conference a major issue of policy which ought properly to be settled by the Government. All the indications were that the Opposition, and in particular the Leader of the Opposition, would not hesitate to seek political advantage by paying lip service to the idea of electoral reform, particularly in the context of a General Election, without actually committing themselves to it; and the scope for this would be increased if the matter had been referred to the Speaker's Conference.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet reaffirmed their earlier view that electoral reform should be excluded from the terms of reference of the Speaker's Conference.

The Cabinet -

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

Distribution of Seats

THE LORD PRESIDENT said that he agreed with the Home Secretary that it would be premature at this stage to refer this matter to the Speaker's Conference, though there might be a case for doing so later since, at some stage in the progress of the Government's devolution proposals for Scotland and Wales, the logic of increasing English representation at Westminster relative to that of other parts of the United Kingdom might become overwhelming. The timing of any initiative to alter the distribution of seats would, however, be very important; and it was essential that the decision on this should rest with the Government and not with the Speaker's Conference, particularly because of the possible repercussions on the situation in Northern Ireland.

In discussion, the view was expressed that increased representation at Westminster for England was probably the major trade-off which could secure English acceptance for the devolution proposals. For this reason, and because there were other matters, for example, the rural weighting of Parliamentary seats, which merited review in the light of modern transport communications, there could well be a case for referring the distribution of seats to the Speaker's Conference from the outset. Against this, there was general agreement with the Lord President's view that the matter was one which ought to be decided in the context of the progress of the Government's devolution proposals; and the point was made that, while there was likely to be great difficulty in defending the Government's commitment not to reduce the present complement of Scottish and Welsh MPs, it would be politically disastrous to depart from that commitment.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed that, given the continued uncertainty in Northern Ireland and the proposed far-reaching changes in Scotland and Wales, the time was not ripe for the distribution of seats to be referred to the Speaker's Conference. The reply to the Leader of

the Opposition's request should, however, be so framed as not to preclude its later addition to the terms of reference if the Cabinet should decide, in the context of the devolution proposals, that this would be desirable.

The Cabinet -

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

Composition of the Conference

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed with the suggestion which had been made by the Lord President that, although the Government's majority in the House of Commons had temporarily disappeared since the composition of the Speaker's Conference was first considered by the Cabinet, it would be desirable to try and secure the agreement of the other Parties to a majority of Government members. It would in any case seem impracticable to provide for representation of all the minority groups, as the Speaker appeared to have in mind, without unacceptably enlarging the Conference. The Lord President, in consultation with the Chief Whip and, as necessary, the Home Secretary, should therefore initiate discussions with the Opposition and possibly other Parties with a view to obtaining agreement on a majority of Government members but if, as might happen, that proved impossible, he should report the outcome to him and make proposals which the Cabinet could, if necessary, consider.

The Cabinet -

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

DROUGHT

4. The Cabinet had before them a memorandum by the Minister for Planning and Local Government (CP(76) 38) proposing the introduction of a Bill to give extra powers for dealing with the drought.

THE MINISTER FOR PLANNING AND LOCAL GOVERNMENT said that in the spring he had set up special liaison machinery with the water authorities and he had been receiving weekly reports on the water situation. The latest appraisal showed that shortages in some parts of the country leading to inconvenience and some hardship were virtually certain in late summer and the autumn, and in some areas there was a real risk of local breakdown of supplies. The worst affected areas were parts of East Anglia, the East Midlands, the South-West and West, and South Wales. Ground water was at historically low levels and there was an increasing risk of pollution. The present law gave no power to prohibit non-essential and even ostentatious uses of water during the period before more severe restrictions became necessary, and there were limits to what could be achieved by exhortation. If water rationing became necessary, the present law only allowed the limitation of domestic use in areas where standpipes were operating. He therefore proposed a short and urgent Bill which would provide for restrictions on unnecessary uses in the build-up period when public support for economy was essential, and a framework for a rationing system for industrial, agricultural and domestic use which did not depend on the operation of standpipes. During the build-up period compensation would be payable for restrictions as at present, but if rationing became necessary this would affect everyone in the local communities concerned and there would be no compensation.

In discussion there was general agreement on the need for action before the Summer Recess to provide more effective legal powers to conserve water supplies, and that the risk of leaving action until the autumn would not be acceptable. It was, however, already doubtful whether the existing Parliamentary business could be completed by the end of July, and the addition of a Bill on water supplies, which might be of some complexity and which it might not be possible to get through quickly, would add to the difficulties. There was considerable pressure to rise for the Summer Recess on 30 July, but with the addition of this Bill it seemed virtually unavoidable that the House should sit into the first week of August. There should be consultations with the other Parties with a view to ensuring as smooth as possible a passage for the Bill, and there might be advantage in introducing it in the House of Lords, which would be able to take the Bill as soon as it was ready. The Scottish National Party were in the habit of objecting to legislation which covered the whole of Great Britain, and the Bill could be confined to England and Wales if that would help its passage through Parliament.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the proposals by the Minister for Planning and Local Government for the introduction of legislation to provide more adequate powers to control the use of water, with a view to its enactment by the Summer Recess, and noted that it might well be necessary for Parliament to sit in the first week of August. The Minister would make an early announcement in Parliament of the Government's intentions. The Minister for Planning and Local Government would give further consideration, in consultation with the Lord President, the Lord Privy Seal and the two Chief Whips, to the plans for and timing of the Bill's introduction, and would arrange for discussions with the other Parties at an appropriate time with a view to obtaining their co-operation. It might be advantageous to introduce the Bill in the House of Lords and to limit its application to England and Wales.

The Cabinet -

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

Cabinet Office

1 July 1976

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CM(76) 13th
Conclusions

COPY NO 85

# CABINET

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

TUESDAY 6 JULY 1976

at 10.00 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr D le B Jones
Mr J A Marshall

S U B J E C T

PUBLIC EXPENDITURE

**PUBLIC EXPENDITURE**

Public expenditure was considered by the Cabinet. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

6 July 1976

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COPY NO 39

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 13th Conclusions

Tuesday 6 July 1976 at 10.00 am

PUBLIC EXPENDITURE

The Cabinet had before them a memorandum by the Chancellor of the Exchequer (CP(76) 42) proposing reductions in public expenditure in 1977-78; a memorandum by the Secretary of State for Energy (CP(76) 43) proposing an alternative course of action; and a note by the Chancellor of the Exchequer (CP(76) 40) covering the 1976 report by the Public Expenditure Survey Committee (PESC).

THE CHANCELLOR OF THE EXCHEQUER said that it was essential to keep both the economy and the social contract afloat. He had resisted pressure for unjustified cuts in public expenditure in 1976-77; but in his view the prospect of economic growth in 1977-78 and 1978-79 could be threatened by excessive domestic consumption, both private and public. The provisional Short Term Economic Forecast, showed that the economy was growing faster than had previously been assumed; Gross Domestic Product (GDP) was likely to grow by 5 per cent between mid-1976 and mid-1977 with a growth of 9 per cent in manufacturing output. These rates were high by past standards, but it would be necessary to maintain them for three years if the Government's employment target was to be achieved. Manufacturing investment in 1976-77 was likely to be 15 per cent higher than in the preceding year; and unemployment was unlikely to rise above its present level. The improved growth prospects were based on exports, which were expected to grow by 11 per cent in volume in 1976 and 12 per cent in 1977, mainly because British products were now very competitive. On the external side, however, the change in the terms of trade, and the J-curve effect of devaluation, meant a deterioration in the balance of payments. Commodity prices were rising higher and faster than had been expected, and invisible earnings were likely to be lower next year than this. The balance of payments deficit in 1976 was now expected to be about £500 million, while in 1977 it would be up to £2,000 million on present policies, and there was no sign of any improvement thereafter.

In resource terms the problem was whether industry would have the capacity to cope with the extra demand for exports and import-substitution without the development of bottlenecks. The danger was that domestic demand might be excessive, particularly if the private savings ratio were to fall. The main problem, however, was one of financing the country's external deficit over the next two years. If overseas lenders were to allow us to borrow £3,500 million, they would need to be satisfied about the viability of the country's economic strategy. They - the International Monetary Fund (IMF) and the individual countries from whom we might borrow - were concerned about the growth of the money supply with a high public sector borrowing requirement (PSBR). It was true that, as economic activity revived, the PSBR should fall from £11,500 million in 1976-77 to £10,500 million in 1977-78 on present policies (and assuming no revalorisation next year of tax allowances); but no other country was planning to continue with as high a Government borrowing requirement. Indeed the United States, France and Germany were all planning to cut or eliminate their deficits.

It would be no solution to raise interest rates since this would choke off economic recovery, or to allow the money supply to grow and feed inflation. It was in his view essential to reduce the prospective PSBR next year by a further £1,000 million. This could be done in theory either through taxation or through public expenditure, but it would not be safe to make the whole of the required reduction by taxation. This would require an increase of 3p in the standard rate of income tax, which would cost the single man £1.38p a week from his pay at a time when real take home pay would be falling and would be likely to wreck the pay policy. If, instead, the sum required were raised through indirect taxes, that would add some 2.7 per cent to the Retail Price Index. It was therefore necessary to do as much as possible by public expenditure reductions. His memorandum suggested cuts of £1,250 million in the programmes listed in Cmnd 6393, which would reduce the PSBR by £1,000 million; but he was prepared to settle for cuts of £1,000 million, which would take £700 million off the PSBR. In announcing cuts of this magnitude, he would have to make clear what the Government's objective for the PSBR was in 1977-78 and also to announce that steps were being taken to limit the money supply. In addition to the resources and financing arguments for this course, he had to emphasise the precarious nature of the external confidence problem. The slide in the exchange rate at the end of May would have led to catastrophe had not the $5,300 million standby been made available - and even so further money had had to be spent subsequently to keep the rate steady. If the PSBR next year were not reduced, there was a serious risk of a run on the pound of a magnitude which using the whole of the standby credit could not stem. After the last

drawing from the IMF, some foreign borrowings, and some drawing from the standby, the United Kingdom reserves stood at around $5,000 million. The remaining credits available from the IMF would not in fact be sufficient to repay the whole of the standby - and there was still the problem of financing the deficit for the remainder of 1976 and 1977. Early action was therefore essential if a sterling crisis in August, which could necessitate even more painful decisions in an emergency situation, was to be avoided. He therefore recommended the cut of £1,000 million in public expenditure proposed in his paper.

THE SECRETARY OF STATE FOR ENERGY said that he was opposed to the expenditure cuts which the Chancellor of the Exchequer was recommending; and he very much regretted the publicity given to this recommendation since it meant that if the Cabinet did not agree they might well precipitate the crisis of confidence which the cuts were designed to avert. He noted that the cuts required were of the order of £1,000-£1,250 million, plus the reabsorption of the additional bids of some £1,600 million listed in the PESC report, making a total reduction of nearly £3,000 million. The Cabinet had seen no specific financial forecast of the likely size of the public sector borrowing requirement, and no quantitative forecast of the extent to which it would fall as economic recovery proceeded. Nor were any tax options set out in the Chancellor's paper. He did not deny that there were very real problems to be dealt with. On the political plane, the Opposition had aligned themselves with the market to shake confidence in the Government. The trade unions and the Labour Party had been told that wage claims led to inflation, and in response to this they had now agreed to a restrictive wages policy. They had been told that strikes caused industrial disruption, and industrial disputes were now at a very low level. Having gone so far to meet the Government, were they now to be told that there would have to be further public expenditure cuts? This could only lead to a fatal erosion of the Government's relationship with the trade unions. In economic terms, the PSBR would fall as economic growth built up. The industrial and resource arguments which had been put forward were weak - the country was not in a raging boom, but was at the bottom of a slump, and there was certainly no need to reduce demand to make room for industrial investment and exports. On the international monetary front, the country was very vulnerable as a result of the £7,000 million of short-term sterling holdings in London, which meant that the confidence arguments had to be taken seriously; but the Government should consider possible ways of funding this short term debt and winning the support of the international monetary community for doing so. In his view it was essential to retain the confidence both of the Trades Union Congress (TUC) and the IMF, and therefore to have discussions with both. Public expenditure should be reviewed in

accordance with the normal timetable, and no doubt in the process there would be some scope for savings, but drastic public expenditure cuts would not touch the real problems of the country which were to use and expand industrial capacity by concentrating imports on industrial re-equipment and restraining imports for consumption. Taxation on goods with a high imported content could be increased; and steps should be taken to ensure that the higher profits arising from the relaxations in the Price Code were in fact devoted to industrial investment. A long and searching discussion with the IMF was possible because the IMF did not wish to bring about a fall in sterling and knew that the maintenance of the social contract was essential to continued good government in this country. Only through discussion with the IMF could appropriate financial targets be identified.

In discussion, a good deal of doubt was cast on the validity of the resource arguments for cutting public expenditure in 1977-78. Retail sales were not buoyant, and the effect of the pay limit would surely be to keep private consumption fairly flat. Some of the proposed cuts - in housing and subsidies - would in fact have effects in 1976-77, when recovery was certainly not under way. The Treasury forecasts were more optimistic than those of the National Institute for Economic and Social Research. If the cuts proposed were made they could add some 30-40,000 or more to the total of unemployed in 1976-77, rising perhaps to 70,000 by mid-1978 - although by the latter period unemployment as a whole would of course be falling. There might well be growth in output from an export-led boom; but it did not follow that unemployment would fall correspondingly quickly, since it was well known that employment lagged behind output. Industry would, in the early stages of the recovery, increase production by the more efficient use of their existing resources. It would be important for Cabinet to have detailed information on the unemployment implications of both the £1,000 million of cuts now proposed, and of the £1,600 million of additional bids which had to be eliminated or offset. One possibility would be to state firmly that the Government would not exceed the published public expenditure figures but would certainly not take further steps which would add to unemployment. Indeed there was a good case for preparing an unemployment package to put more money into areas of high unemployment. Unless something of this kind were done, the Government's relationship with the trade unions would be eroded. The concept of shifting resources into the balance of payments and industrial investment could be highly relevant to 1978-79, but not to 1977-78; and the argument that insufficient savings would be available in 1977-78 to meet all needs was weak, since industry was already more liquid than last year and would be getting the benefits of the changes in the Price Code. Against this it was argued that the resources argument was even more important than had been

suggested. If large sums had to be borrowed abroad, this would inevitably force up interest rates - and United Kingdom rates were already higher than those of our trading competitors - and thus hold back the industrial investment needed. Even if the resources argument related more to 1978-79 than to the previous year, it was hard to believe that economic forecasting could be so precise about particular periods. If action were left for a further year, it might well be too late to exploit the enormous opportunities of the economic upturn. In 1976, even though the United Kingdom was more competitive than it had been for a long time, its share of world trade was likely to drop. If that share were to be maintained, there would certainly be capacity problems in some parts of British industry (eg motor car production), and if private savings were reduced, there could well be an increased demand for consumer durables. The resources problem was therefore a real one.

On the question of confidence, it was argued that any measures to cut public expenditure by £1,000 million would jeopardise the maintenance of the pay policy, not just because of the addition of one-quarter of a per cent to the Retail Price Index, but because of the political and trade union consequences of cutting such services as housing and education. This in turn could damage international confidence as much as the PSBR which the cuts were designed to reduce. Furthermore the damage would not be confined to the relationship with the trade unions, but would spread to the Government's relations with the Parliamentary Party and with Labour local authorities, from whom the cuts would evoke a bitter response. On the other hand, it was argued that the real question was whether a reduction of £1,000 million in the PSBR next year would be enough. There had been pressure for a cut of £2,000 million in the borrowing requirement; and for this reason it might - depending on how far the situation improved as a result of economic recovery - be necessary to make some tax increases next year in addition to expenditure cuts this year. It was noted that, but for the standby credit at the beginning of June, the rate could have dropped to, say, $1.50, which would have added 7 per cent to the Retail Price Index and have produced cataclysmic financing problems. The standby credit was obtained only on condition that the United Kingdom went to the IMF if, at the end of the 6 months, it was unable to repay any drawings; and it was noted that not all the contributors to the standby believed that it would provide sufficient stability to last for 6 months. The truth was that the situation had been extremely serious when the credit was negotiated, and the Cabinet could easily have found themselves having to conduct the present discussions against the background of a plunging rate. The risks were highly asymmetrical: the potential dangers flowing from taking no action were far greater than any which could possibly flow from the kind of action now proposed. The problems were real, and were

known to our creditors, who could see our large balance of payments deficit, the likelihood of it increasing, the rate of inflation still higher than that of other countries and the high accumulation of debt. All these considerations made action of the kind proposed by the Chancellor of the Exchequer essential.

On the question of what action should be taken, it was argued that it was unnecessary to take the whole of the burden of reducing the PSBR in the form of cuts in expenditure. Such cuts would begin to bite in the spring of 1977, when settlements under the second round of the social contract were being made, and when discussions would be in train about what might succeed Round 2. The selection of cuts proposed was highly regressive in its social impact; cuts in housing expenditure and subsidies would hit those less well-off and would be very unwelcome to the trade unions. The Cabinet should be given material to enable it to consider tax increases as an alternative to some expenditure cuts, so that a mixed package might be evolved. It was true that taxes on alcohol and tobacco increased the Retail Price Index, but this would be more defensible than increasing the cost of essentials by reducing food subsidies. Not only should some tax increases be included, but the possibility of actually increasing expenditure on some programmes - urban deprivation and employment - so as to present the package as a reordering of priorities, should be considered. It was also argued that it would be important, if any package were to be sold to the trade unions, that the investment programmes of the public sector of industry should go ahead and that the National Enterprise Board should not be starved of resources.

On the question of consultation, there was a wide measure of agreement that it would be essential, preferably before the Government had taken any final decisions, to consult both the Parliamentary Labour Party and the TUC. In the latter case the difficulties of the position of the TUC representatives on the National Economic Development Council and the inadequate extent to which they reflected the views of the public sector unions, had to be borne in mind. The aim would be to explain fully and frankly the difficulties which the Government faced, and to invite views on the action which, in this situation, the Government should take. The exercise would need to be presented to the trade unions as an essential step to the strengthening of our industrial base. It must be genuine consultation, and it was for consideration whether it should not also extend to the Labour local authorities and perhaps also to a joint meeting between the Cabinet and the National Executive Committee of the Labour Party.

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

a. While there was much to be said for making arrangements to fund the existing £7,000 million of short-term debt if this could be done, there was no prospect of doing so without a good deal of help from other countries, help which would not be forthcoming unless they were completely satisfied with the United Kingdom's position and policies.

b. To open up a dialogue with the IMF before taking decisions on public expenditure could be disastrous. The IMF would demand changes in policy more severe than those proposed by the Chancellor of the Exchequer; and such demands would leak and be very damaging for the Government, both politically and in relation to external confidence. Indeed in the normal annual consultation with the Fund staff in May, the IMF had taken the view that the United Kingdom should cut the PSBR by £2,000 millim and should face higher unemployment. Nor could too much be made of the argument that the United Kingdom could rely upon the IMF's unwillingness to see sterling drop heavily. The Fund might prefer not to see it drop, but sterling was no longer the lynch-pin in the world monetary system which it had once been.

c. The United Kingdom presented its public sector borrowing requirement figures in a manner which was disadvantageous to its interests. It was appreciated that it was not possible to change the presentation immediately, but it was a matter which called for later consideration. It was noted that arrangements were already being made to publish a figure for the general Government deficit, which would exclude the borrowing on account of the nationalised industries' investment needs.

d. Finally it was pointed out that the public expenditure reductions proposed in the paper by the Chief Secretary attached to the Chancellor of the Exchequer's memorandum represented his assessment of what was technically and administratively feasible. It would be for Cabinet to judge how far they were politically possible also. Because of the time constraint, it would be necessary for the Chief Secretary to proceed forthwith to conduct bilateral discussions with the spending Ministers, but the nature of such discussions made it difficult to consider the overall effect of the proposed changes on the Government's priorities. It would be desirable for Cabinet to have an opportunity to discuss the general shape of the emerging package after there had been a discussion with the Parliamentary Labour Party. At the same time it would be necessary to take into account the employment implications of the proposals, including the action to eliminate or provide savings in place of the £1,600 million of additional bids shown in the PESC report.

THE PRIME MINISTER, summing up the discussion, said that in the course of discussion a range of views had been expressed, but, whether on resource grounds or for confidence reasons, there seemed to be a majority in the Cabinet which favoured an early statement by the Government of action to reduce next year's public sector borrowing requirement. No final decisions were however being taken at the present meeting. Whether any action taken should consist wholly, or only partly, of reductions in public expenditure was a matter which would need to be discussed further, as would the composition of any particular package of cuts. There was widespread agreement that it would be essential, if the Government were to maintain the confidence of its supporters in Parliament and not damage its relations with the trade unions, for there to be early consultation both with the Parliamentary Labour Party - which should take place the following week - and with the Trades Union Congress. There was a general feeling that this should be genuine consultation, to be held before the Government had reached any final decisions on what they should do; but at the same time it was recognised that the Government could not put the decisions into commission, and that having listened to the reactions of and advice from the Party and the TUC, they would then have to decide themselves the content and timing of any public announcement. The Cabinet would consider the issues further at a meeting in the middle of July, at which the general shape of a possible package, and the possibility of including some taxation adjustments as well as some possible increases in certain expenditures, particularly on unemployment and urban deprivation could be considered. In the meantime, the Chief Secretary, Treasury should proceed to have bilateral discussions with the spending Ministers on a contingent basis with a view to identifying as far as possible those areas on which it might be possible to agree that, if Cabinet eventually decided that expenditure cuts were essential, such cuts might fall. In making this selection, it would be important to have regard to the effects upon employment of particular cuts, and this information should as far as possible be made available to Cabinet, who would also need information on the tax changes which might form part of the package, including their likely effect upon the Retail Price Index. The bilateral discussions should also cover the handling of the additional bids of £1,600 million shown in the PESC report which the Cabinet were agreed must either be eliminated or replaced by other savings. In a difficult situation it was essential to preserve both solidarity in the Cabinet and also complete confidentiality about their discussion. This had been a useful one, but the decisions remained to be taken.

The Cabinet -

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

2. Invited the Chief Secretary, Treasury, to hold bilateral discussions on a contingent basis with the spending Ministers to identify those areas in which public expenditure reductions might be made if, in due course, the Cabinet decided that such reductions were necessary; to determine how the additional bids of £1,600 million should be handled; and to report back by 15 July.

3. Invited the Chancellor of the Exchequer to circulate information about the estimated employment effects of possible expenditure reductions, and information about possible tax adjustments and their likely effect upon the Retail Price Index.

4. Agreed to resume their discussion at a later date.

Cabinet Office

7 July 1976

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CM(76) 14th
Conclusions

COPY NO 85

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held at 10 Downing Street on
THURSDAY 8 JULY 1976
at 10.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot 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 Shirley Williams MP
Secretary of State for Prices and Consumer Protection and Paymaster General

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Roy Hattersley MP
Minister of State for Foreign and Commonwealth Affairs (Items 2 and 4)

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Item 4)

Lord Harris of Greenwich
Minister of State, Home Office
(Items 2 and 4)

Dr Gavin Strang MP
Parliamentary Secretary, Ministry of Agriculture, Fisheries and Food
(Item 4)

SECRETARIAT

Sir John Hunt
Mr G R Denman (Items 1 and 2)
Mr D le B Jones (Items 3 and 4)
Mr J A Marshall (Item 4)
Mr A D Gordon-Brown (Item 1)
Mr A K H Atkinson (Item 2)
Mr C J Farrow (Item 3)

CONTENTS

PARLIAMENTARY AFFAIRS

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

The Cabinet were also informed of the arrangements made for consultation with the Trades Union Congress and with the Parliamentary Labour Party about the economic situation.

DIRECT ELECTIONS TO THE EUROPEAN ASSEMBLY

Previous Reference: CM(76) 9th Conclusions Minute 3

2. The Cabinet had before them a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 46) on direct elections to the European Assembly.

THE MINISTER OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS recalled that in a Green Paper published in February the Government had accepted a commitment under Article 138 of the Treaty of Rome to direct elections and at the recent meeting of the European Council the Prime Minister had said that we hoped to be ready for direct elections at the same time as other Member States subject to the approval of Parliament and to our overcoming the administrative difficulties. In the course of a two day debate in the House in March the Government had offered to set up a Select Committee which had now produced an interim report on the Community aspects of direct elections that might be decided at the meeting of the European Council in Brussels on 12-13 July. The report of the Select Committee, which was broadly in line with the views expressed by the Government in the Green Paper, was due to be debated in the House of Commons on the following day. On the size and composition of the Assembly the Select Committee had recommended in favour of an Assembly of between 350 and 425. This was consistent with the Prime Minister's statement in the debate on direct elections in March that we favoured an Assembly of 350 or more members, and with the variants which the European Council would have before them including in particular a variant we had put forward for 390 seats. The latter would give us a total of 78 and for example enable us to allocate 9 seats to Scotland, 4 to Wales and 2 to Northern Ireland. As regards the date for elections the Committee were in favour of elections being held in May or June 1978 but the Foreign and Commonwealth Secretary thought we should keep open the possibility of nominating United Kingdom members for 1978 in case this should prove necessary. The Select Committee had expressed a preference for the Assembly being elected for four rather than five years but had not advanced any substantive arguments against the five-year period on which there was a broad consensus in the Community. On the status of members of the Assembly the Select Committee had recommended in favour of an optional dual mandate: this had been the view taken by the Government in the Green Paper and the Foreign and Commonwealth Secretary's

recommendation was that we should stick to this. It was right to remind the Cabinet that the General Secretary of the Labour Party had recommended that no decision should be taken by the Government until after the Party Conference in the autumn. If this were not possible the National Executive Committee of the Labour Party made two recommendations, one in favour of a dual mandate, the second in favour of elections to the Assembly being held simultaneously in the United Kingdom with General Elections. He was bound to say that he was opposed to these recommendations on both administrative and political grounds.

In discussion of the size and composition of the Assembly it was argued that the working hypothesis which we had put forward in negotiation would result in an allocation of seats for both Northern Ireland and Wales which would attract severe criticism. The under-representation of Northern Ireland at Westminster was expected to be raised in the context of devolution and the Irish Foreign Minister, Dr Fitzgerald, had urged that in the interests of the Catholic minority Northern Ireland should get more than the two seats envisaged by our working hypothesis. Any settlement of the constitutional problem in Northern Ireland would have to recognise its special position. Furthermore any seemingly favourable treatment for Scotland would lead to pressure for similar treatment for Wales. The question of the distribution of seats to the component parts of the United Kingdom was bound to become tangled up with the debate on devolution. There was therefore a strong case for Parliament deciding at the same time both the details of devolution and the distribution of seats within the United Kingdom for the European Assembly. This pointed to explaining that it would not be possible, given the devolution problem, for us to enter into any final commitment at this stage as to our share of the size of the Assembly. On the other hand it was pointed out that the distribution of seats for the European Assembly within the United Kingdom was a matter entirely for the British Government and Parliament to decide. The figures of seats for Scotland, Wales and Northern Ireland which had been discussed were solely illustrative figures which had been used to achieve a total allocation for the United Kingdom large enough to provide representation for its component parts not significantly out of proportion to those of the smaller Member States. From this point of view our variant would suit us best, and if we were to say at this late stage that we could not give our agreement to any particular total figure this would cast doubt upon our good faith and adversely affect the attainment of our other objectives in the Community.

In discussion of the date for elections it was argued that the National Executive Committee of the Labour Party had put forward arguments both in relation to timing and to the desirability of our retaining the ability to nominate members which it would be most unwise to brush

aside. We were in a quite different position from other Member States not only because we had entered the Community much later than most of our partners but because devolution faced us in the next Session with a mass of complex and controversial legislation. To add to this the legislation which would be necessary for us to have direct elections to the European Assembly by 1978 would multiply the legislative difficulties and damage relations with the Labour Party. We should therefore explain this difficulty frankly to our partners. From this point of view direct elections in 1979 would suit us better. On the other hand it was argued that those opposed to direct elections would be likely to regard 1979 with almost as much distaste as 1978. We had made it absolutely clear that, while the United Kingdom hoped to be ready for direct elections to the European Assembly as soon as any other Member State this was subject both to Parliamentary approval of the necessary legislation and to our overcoming the administrative difficulties involved. The sensible course would be to review the legislative position in the autumn. If the devolution legislation progressed satisfactorily it could be followed by a Bill dealing with direct elections. If on the other hand this did not prove possible, this would be the time to warn our partners. Since our reservation had been made in clear and unmistakable terms, we would only cast doubts on our own intentions if we sought to make too much of these difficulties next week.

As regards the period for which the Assembly should be elected it was suggested that there would be considerable advantage in meeting the wish expressed by the National Executive Committee of the Labour Party that elections in the United Kingdom should coincide with General Elections; elections to the European Assembly between General Elections could produce anomalous and damaging results. On the other hand, it was argued that there were advantages in having a clear fixed term, that it hardly seemed worth opposing a general consensus in the European Council in favour of five years and that the Government had already recorded its agreement in the Green Paper with the Assembly's proposal that it should be elected for five years.

On the status of members of the Assembly it was argued that given the uncertainty of the relationship which would exist between the Labour Party and British Labour Members of the European Parliament it would be desirable to specify clearly that only Members of Parliament in this country should be able to become Members of the European Assembly. On the other hand, it was pointed out that apart from Denmark there was a general consensus among other Governments that the dual mandate should be optional, that this was what the Select Committee had recommended, that the Government had itself endorsed this view in its Green Paper and that the majority of opinion in Parliament was likely to be in favour of an optional dual mandate given the strain which in practice a dual mandate would impose on Members.

THE PRIME MINISTER, summing up the discussion, said that on the size and composition of the Assembly the majority view of the Cabinet was that he could reach a settlement within the range recommended by the Select Committee which should be as near as possible to the variant which we had put forward. This was of course on the clear understanding that the distribution of seats between the component parts of the United Kingdom would be a matter for Cabinet and Parliament later to decide. In agreeing on a best endeavour basis to any date for direct elections in May or June 1978 which commanded general acceptance he should avoid a specific commitment to carry the necessary legislation in time and would mention devolution as an illustration of the difficulties facing us. It would however be undesirable to throw doubt on our previous constructive stance by making too much publicly of our difficulties. On the period for which the Assembly should be elected and the question of a dual mandate, we should stick to the views which the Government had expressed in the Green Paper. The Minister of State for Foreign and Commonwealth Affairs in the debate on the following day should be guided by the sense of their discussion.

The Cabinet -

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

MINISTERIAL SALARIES

3. The Cabinet considered the question of Ministerial salaries. Their discussion and the conclusions reached are recorded separately.

CUTTING THE COST OF THE CIVIL SERVICE

Previous Reference: CM(76) 4th Conclusions, Minute 3

4. The Cabinet had before them a memorandum by the Lord Privy Seal (CP(76) 39) about cutting the cost of the Civil Service; and memoranda by the Chancellor of the Exchequer and the Secretary of State for Industry (CP(76) 45) and by the Secretary of State for the Environment and the Lord Privy Seal (CP(76) 41), dealing with the proposal to abolish Vehicle Excise Duty (VED).

THE LORD PRIVY SEAL recalled that on 13 May the Cabinet had confirmed their previous decision to cut expenditure in 1978-79 by £140 million by reductions in the cost of manpower and administration. He had been invited to conduct bilateral discussions with the other Ministers concerned to establish how this might be achieved, and his memorandum, CP(76) 39, set out the results of those discussions. Annex V to the paper set out a series of reductions which would save 25,000 staff and £95 million. These had been agreed by the Ministers concerned: they raised no legislative problems; and he therefore recommended to his colleagues that they should be approved. Annex W set out ways of saving almost the whole of the balance of £45 million; but these had not been agreed by the responsible Ministers, and their reasons for disagreeing were set out in the Annex. In preparing Annex W he had drawn upon the information provided by Departments on ways in which they could, if necessary, make cuts of 5 per cent, 10 per cent and 15 per cent in their staff expenditure. He noted that the original intention - to cut the Civil Service by 5 per cent - meant that, because the Ministry of Defence and part of the Inland Revenue had been excluded from the exercise, the remaining Departments would need to cut staff on average by 9 per cent. If his colleagues were unable to agree the proposals set out in Annex W, then the only alternative appeared to be to turn to the further proposals in Annex X, which were on the whole even less acceptable. He drew particular attention to two proposals in Annex W. One was the suggestion that the size of juries should be reduced from 12 to 10, saving £700,000. This had been considered by the Home Affairs Committee and rejected. The other was the abolition of the VED. This was a crucial item in the list, and if it were not agreed a further £12 million would be required from Annex X. If however the duty were abolished, and a £2 registration fee imposed, a total saving of £34 million could be achieved, so that the amount to be obtained from the proposal in Annex W would then only be some £10 million instead of £45 million. On the proposals as a whole he reminded Cabinet that an urgent decision was needed because the Staff Side were becoming restive at the lack of information. He was due to see them the following day, and shortly thereafter they were hoping to see the Prime Minister. He therefore recommended to Cabinet that they should agree all the proposals in Annexes V and W to CP(76) 39.

Vehicle Excise Duty

THE CHANCELLOR OF THE EXCHEQUER said that Ministers had discussed the proposal to abolish VED before the last Budget, and had done so against the same background as prevailed now, since the commitment to save £140 million on Civil Service manpower had been announced in February. He had made it clear in his Budget statement that the Government had considered the abolition of the duty and had decided against it, largely for industrial reasons. In view of this, he did not see how the Government could possibly change its view so rapidly. In his opinion the saving to be scored could not in any case be more than £12 million, since the further £22 million would come from the £2 charge which would be a new kind of tax, and they were engaged upon a staff-cutting, not a tax-raising, exercise. Only the previous day the Government had reached agreement with both the Trades Union Congress and the Confederation of British Industry at the meeting of the National Economic Development Council on giving priority to the needs of manufacturing industry; and in the course of that discussion both sides of industry had applauded the decision not to abolish VED. This too made it impossible to contemplate abolition now. Britain was not alone in taxing motoring in three different ways - purchase tax on the vehicle, vehicle licence duty, and tax on petrol - since this was in fact a common arrangement in all Western European countries. To abolish the duty meant losing £650 million of revenue, which would have to be recouped by an increase of 15p a gallon on petrol. To do this now would pre-empt the scope for tax increases which might be needed for other reasons (eg transport policy), since the Government could hardly contemplate increasing the rate of petrol tax twice in a short period of time. He was therefore strongly opposed to the abolition of VED.

THE SECRETARY OF STATE FOR INDUSTRY supported the Chancellor of the Exchequer in his view that it was not possible to go back on the Budget statement. To do so would prejudice the Government's industrial strategy and destroy the credibility of the tripartite group on the motor industry. The import penetration of the small car section of the market had already reached 50 per cent, and both sides of the industry took the view that if VED were abolished it would add a further 10 per cent to import penetration. Any early announcement, even for a change in 1978, would mean that the market would begin to react by a shift towards smaller cars; and British industry was not at present in a posture to meet increased demand - the new Mini from British Leyland would not be ready until 1980. It had been suggested that the higher petrol tax would lead to a reduction in oil imports, but he regarded this as highly speculative. What was more certain was that such a move would seriously undermine the very heavy capital investment which the Government had already put into British Leyland and Chrysler, not to mention the further tranche of support for the former which would shortly be considered. Even if it were agreed to score the saving from a £2 registration fee, he did not

believe this would carry any credibility with the public who would suspect that the charge would rapidly be increased. He was therefore strongly opposed to abolition.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the alternatives to the abolition of VED would be both disagreeable and damaging. The Central Policy Review Staff had reckoned that the effect of abolishing VED on the car market would be so small as to be virtually unidentifiable. He pointed out that in recent years the price of petrol had doubled, and that the additinal petrol tax now contemplated was small by comparison with that. In his view people were buying small cars, not primarily because of the reduced running costs, but because the capital cost was lower. If the British car industry could not meet the need, perhaps other steps should be taken to regulate the demand. In his view the increased petrol tax would lead to a saving of some £25-£35 million on the import bill. He saw no reason why the £22 million which would arise from a £2 registration fee should not be quite properly scored as a saving for the purposes of the present exercise. The office at Swansea still had 1,000 jobs not yet filled, so the redundancy problem would not be severe. If a date were set for abolishing the duty in the spring of 1978 this should give the British car industry a chance to boost its production of smaller cars to meet any increased demand that might arise. He therefore favoured abolition.

In discussion it was argued in favour of abolition of the duty that the Cabinet should not shirk from going back on the decision announced in the Budget statement, since the other expenditure cuts which they would need to make would themselves mean going back on other decisions also. The alternatives to the abolition of VED were in fact worse. VED was an inequitable tax, since the motorist had to pay the same sum regardless of the extent to which he used his car, and, unless a tax were introduced on tyres, an addition to petrol tax was the best alternative, releasing the staff in Swansea and leaving the petrol stations to collect it for the Government. VED was in any case an unpopular tax, and abolition would be welcome. Furthermore, it was frequently evaded - perhaps to the extent of 5 per cent, thereby losing some £40 million of revenue which could (if the substituted addition to petrol tax were pitched high enough) be recouped. On the argument that higher petrol tax would cause a further drift to smaller cars, to the disadvantage of the British car industry, it was noted that business users were unlikely to be influenced to any appreciable extent, and that other buyers paid more attention to their initial outlay than to their running costs.

Against abolition, it was argued that the effects in Swansea, and thence upon the Welsh political scene, could be serious. The Staff Side had been greatly relieved by the decision announced in the Budget,

but were much disturbed now they had learnt that abolition was again under consideration. The setting up of the vehicle centre had been an important part of the Government's dispersal policy, as a result of which there were now 5,200 staff in post in Swansea which would rise to 5,700 on present intentions. The abolition of VED would cause this to dtop to 4,500, a loss of 1,200 jobs from a very recently established office. This would seriously damage the Labour Party cause in Wales, where over 20 seats were held by Government supporters. Less drastic steps - eg altering the basis of collection from four months to six months, and having licences end at varying dates and not all on the last day of the month - were possibilities, but were unlikely to save more than about £2 million.

The Total Package

In continuing discussion it was suggested that one way out of the present difficulty would be to decide not to fulfil the earlier decision to save £140 million. Thus, it would be possible to announce that savings of £95 million had been identified, and that the Government would pursue the possibility of making more. Against this, it was observed that the £140 million was a public commitment in the White Paper of the previous February (Cmnd 6393); and that if the Government did not fulfil that undertaking they were in no position to press staff cuts upon local authorities. One possibility would be to substitute for the proposals in Annex W a 3 per cent cut on all Departmental staffs, perhaps using the cash limits system to implement it; but against this it was argued that such savings rarely materialised unless one could identify in advance what activities were being cut to bring them about.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the reductions listed in Annex V to CP(76) 39. On the question of the abolition of VED there were strong arguments on both sides, but the majority of the Cabinet clearly favoured abolition. However, the question of timing would need to be given further consideration by the Chancellor of the Exchequer, who would also be free to put forward any alternative proposal he wished to cope with the difficulty that, whether with or without the abolition of VED, the Cabinet had not yet succeeded in agreeing the full £140 million of savings to which they were committed. They noted that one possibility the Chancellor of the Exchequer was considering was that, while the total expenditure figure for 1978-79 in Cmnd 6393 could not be exceeded, there might be some feed-through into that year from the possible reductions in 1977-78 which the Cabinet would be considering further the following week; and this might help to bridge the present gap. For the present, therefore, there should be no announcement of any kind about VED. On the question of consultation with staff, the

Lord Privy Seal would be seeing the National Staff Side the following day and could indicate to them in general terms the reductions on which the Cabinet were agreed, making it clear that further options were still being examined. Thereafter it would be possible for consultations to be held with Departmental Staff Sides about the implications for individual Departments of the cuts which had been agreed, although in doing this care would need to be taken where the unions concerned had an interest in both the agreed cuts and those on which decisions had yet to be reached.

The Cabinet -

1. Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Chancellor of the Exchequer and the Lord Privy Seal to be guided accordingly.

2. Agreed to the proposals listed in Annex V to CP(76) 39.

3. Agreed to resume consideration of the subject the following week.

Cabinet Office

8 July 1976

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COPY NO 31

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 14th Conclusions, Minute 3

Thursday 8 July 1976 at 10.30 am

MINISTERIAL SALARIES

The Cabinet considered a memorandum by the Lord President of the Council (CP(76) 44) on the report by the Top Salaries Review Body (TSRB) on Ministers' and Office Holders' salaries and pensions, and the pensions and certain allowances and facilities for Members of Parliament.

THE LORD PRESIDENT OF THE COUNCIL said that the previous year the TSRB had reported on the pay and allowances of Members of Parliament. Their present report completed their review of Members' allowances and facilities, and also covered Members' pensions and the salaries of Ministers and Office Holders. They would shortly be issuing a further report on Peers' Expenses Allowance. Before the TSRB report had been submitted he had written to the members of the Cabinet inviting agreement to an increase in the salaries for Members of £6 per week, subject to earnings from all sources not exceeding £8,500 a year, and to a corresponding increase in the £3,200 a year maximum of the secretarial allowance within which expenditure on secretarial assistance could be reimbursed. There had been general agreement to those proposals. The Prime Minister, as an act of courtesy, had informed the TSRB of the Government's intentions. Its Chairman, Lord Boyle, had however expressed some surprise over the decision to increase Members' salaries by the full £6 permitted under the incomes policy rather than to make improvements in pensions and had invited the Prime Minister to reconsider the decision about increasing the secretarial allowance. In his view, however, the Government's decision was right on both counts. Many Members badly needed the £6 increase and those earning over £8,500 would not be entitled to any increases so could not qualify for improvement in pensions. Members' secretaries were naturally expecting a pay increase but Members were in no position to finance increases out of their own pockets. The increase in the secretarial allowance would, however, need careful presentation.

If Members' salaries were increased by £6 per week incomes policy would effectively preclude the implementation of the recommendations in the TSRB's report about Members' pensions as improvements in pensions counted against the pay limit. The current pay limits ruled out the increases recommended in Ministers' salaries. The report had only just been submitted and could not rank as a commitment predating the incomes policy. It was to be hoped that the introduction of the new State pensions scheme in partnership with private occupational pensions in 1978 would enable the recommended improvements in Members' pensions to be implemented after the forthcoming round of pay policy. Thus only MPs retiring during the next year or so would stand to lose as a result of the delay. He sought his colleagues' agreement to a reply being sent from the Prime Minister to Lord Boyle in the course of the week; a statement being made to Parliament on Monday 12 July to be followed by the early tabling of the necessary resolutions; and to the publication of the TSRB report before the Summer Recess together with a statement that the Government had considered its contents but did not propose to take any further action on it until incomes policy permitted.

In discussion importance was attached to its being made clear in the statement to Parliament that the Government was not accepting any commitment to implement the recommendations in the TSRB report when incomes policy made this possible. The Government had in the past discouraged other groups from negotiating increases for implementation when the incomes policy permitted and it should not itself undertake any such commitment.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed with the Lord President of the Council's recommendations. He would himself write to Lord Boyle to reaffirm the Government's decision. The Lord President of the Council should inform Parliament of the Government's intention to recommend an increase in Members' salaries of £6 per week, subject to earnings from all sources not exceeding £8,500 and a corresponding increase in the £3,200 maximum of the secretarial allowance. In doing so he might indicate that the TSRB had recommended substantial increases in Ministers' salaries but that these recommendations could not be accepted because they were inconsistent with the incomes policy. The statement should also make clear that while the TSRB's report would be considered when the incomes policy permitted the Government was in no way committed to implement its recommendations.

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 inform Parliament on 12 July of the Government's decision to increase Members' salaries by £6 per week as from 13 June 1976 subject to earnings from all sources not exceeding £8,500 a year and to make a corresponding increase in the secretarial allowance.

3. Invited the Lord President of the Council to arrange for publication of the report by the Top Salaries Review Body before the Summer Recess and to indicate that the Government would not wish to take any further action on the report until incomes policy permitted.

Cabinet Office

8 July 1976

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CM(76) 15th
Conclusions

COPY NO 85

CABINET

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

THURSDAY 15 JULY 1976

at 9.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Items 3 and 4)

SECRETARIAT

Sir John Hunt
Mr G R Denman (Items 1 and 2)
Mr T F Brenchley (Item 2)
Mr D le B Jones (Items 3 and 4)
Mr J A Marshall (Items 3 and 4)
Mr A D Gordon-Brown (Item 1)

CONTENTS

PARLIAMENTARY AFFAIRS

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

THE LORD PRESIDENT OF THE COUNCIL said that on Tuesday 20 July there would be three separate debates of three hours each on the proposed timetable Motions; the first would relate to the Aircraft and Shipbuilding Industries Bill, the second to the Education and Rent (Agriculture) Bills, and the third to the Dockwork Regulation and Health Services Bills. The Motions would allot one day each, running until midnight, for the remaining stages of all these Bills except the Aircraft and Shipbuilding Industries Bill, for which three days would be allotted, each running until 11.00 pm. The remaining stages of the Education and Rent (Agriculture) Bills would then be completed during the following week, and it was planned to take the remaining stages of the Dockwork Regulation and Aircraft and Shipbuilding Industries Bills in the week beginning 26 July. He hoped, subject to the progress of business, that the House would rise for the Summer Recess on Friday 6 August and that it would be possible to avoid taking any highly controversial business during the final week. It might not be possible to take the remaining stages of the Health Services Bill until the House returned from the Recess.

The Cabinet -

Took note.

FOREIGN AFFAIRS

Uganda

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that two courses of action had been open to us following the apparent murder of Mrs Bloch and President Amin's threats against our nationals. The first was a tough statement and the immediate breaking off of diplomatic relations with Uganda: this might well have provoked reprisals while in itself doing little good. The second course, which he had preferred, was under cover of a restrained attitude to take positive steps to disengage from Uganda over a period of two to three weeks. British subjects had now been advised to leave Uganda: and within three weeks their numbers should be reduced to those who would remain under any circumstances. At that point it would be possible to close the High Commission in Kampala quietly by withdrawing the remaining staff. There was of course some risk that this gradual disengagement plan might go wrong and that President Amin would start taking action against the British community. If so, it would be necessary to fall back on a contingency plan agreed with the Ministry of Defence, which was based on the use of civilian aircraft. Meanwhile, certain requests for help had been received from Kenya and these had been met.

The Cabinet -

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

Meeting of the European Council 12-13 July

Previous Reference: CM(76) 14th Conclusions, Minute 2

THE PRIME MINISTER said that he had little to add to the statement which he had made in the House of Commons the previous day on the meeting of the European Council in Brussels on 12-13 July. What had struck him most about the atmosphere of the meeting was the marked helpfulness shown by President Giscard d'Estaing. On every issue he had either avoided a difference of opinion with the Prime Minister or had given him his support. This had been of particular help in the settlement of the direct elections issue. The final compromise had emerged from discussion between the Prime Minister, President Giscard and Herr Schmidt and was based on a proposal of President Giscard. Few of the Heads of Government seemed to have given adequate consideration to the administrative and legislative difficulties which preparations for direct elections would entail and both Herr Schmidt and President Giscard, particularly the latter, foresaw difficulties on this front as did the Danes. The fact that our share of the seats had been increased to 81 would give us some more elbow-room for the allocation of seats to the constituent parts of the United Kingdom, but the reports which had appeared in the Press of a distribution of seats within the United Kingdom were speculation and not the result of official briefing. Despite an attempt by the Irish Prime Minister to raise the question of Northern Ireland the distribution of seats within national totals had not been discussed between Heads of Government.

The Cabinet -

2. Took note.

PUBLIC EXPENDITURE

Previous Reference: CM(76) 13th Conclusions

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

UNEMPLOYMENT AMONG YOUNG PEOPLE

4. The Cabinet had before them a memorandum by the Secretary of State for Prices and Consumer Protection and Paymaster General (CP(76) 51) reporting the views of a group of Ministers on proposals for action on unemployment among young people.

THE SECRETARY OF STATE FOR EMPLOYMENT said that he had put four proposals to the Ministerial Group: first a proposal to replace the existing £5 Recruitment Subsidy for school-leavers by a subsidy of £10 a week for six months, payable in respect of anybody under the age of 20 who had been unemployed at least six months; and second a proposal to increase the number of training places provided by the Training Services Agency (TSA) for young people from 7,000 to 10,000. Both of these proposals had been endorsed by the Group and he recommended them to Cabinet for approval. The third proposal had been for the introduction of work experience courses in industry; and the fourth was a job swap scheme whereby older workers would retire one year early and receive a special allowance on condition that their place was taken by someone on the unemployment register. The Group had considered that both of the latter schemes required further work before any announcement could be made. He was anxious to make an announcement on Tuesday 20 July when the June unemployment figures would be published. He felt that the first two proposals taken alone would represent a wholly inadequate response to the situation which would be revealed, and that it was essential to include in his statement something about the work experience and job swap schemes. The gross cost of the work experience scheme was estimated at £20 million, although allowing for the supplementary benefit which would be saved the net cost was only about half that sum. The idea had originated in the Trades Union Congress, and the Confederation of British Industry were prepared to back it. He would therefore like to announce the following week that the Manpower Services Commission would be developing a work experience scheme in co-operation with both sides of industry to provide some 30,000 places at a gross cost of £20 million. He would like also to be able to make some reference to the possibility of a job swaps scheme which in his view had much to commend it.

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION said that the Group of Ministers were concerned at the possible effect that the work experience scheme might have on the scheme for subsidising school-leavers. Since in the former case the full cost would be borne by the Government, while in the latter the employers were left to bear part of the cost, there was a danger that the first scheme would undermine the second. In any case, in the view of the Ministerial Group the scheme needed further refinement to ensure that there was a proper training element. On the question of job swaps, grave concern which she did not altogether share had been expressed at the possible effect this might have in stimulating

increased pressure for early retirement over a much wider field. In any case, the cost of this scheme was still by no means clear. The Group could not therefore recommend that an announcement be made the following week on these two schemes.

THE PRIME MINISTER, summing up a brief discussion, said that Cabinet were agreed that the proposal to replace the existing £5 Recruitment Subsidy for school-leavers by a subsidy of £10 per week, payable for six months, for the recruitment of anybody under the age of 20 who had been unemployed for at least six months, should be approved at an estimated cost of £4.4 million. Furthermore, they agreed to the expansion of training places provided by the TSA for young people from 7,000 to 10,000, and noted that this could be arranged without any increase in expenditure. On the question of a work experience scheme and a job swap scheme, it was the general view that both of these required further consideration before they could be approved. The Cabinet shared the view of the Secretary of State for Employment that to announce the first two schemes alone would not be helpful, and indeed might be regarded as derisory. When the unemployment figures were published the following week, he should therefore say no more than that he hoped to produce a further programme of assistance before the Recess. In the meantime further work should be done by the Ministerial Group under the Secretary of State for Prices and Consumer Protection on the possibility of introducing a work experience scheme and a job swap scheme so that it would be possible to construct an employment package of reasonable size - although the possible repercussions of the job swap scheme would need very careful consideration. The Secretary of State for Defence had indicated that the defence cuts meant that facilities for training of apprentices were now becoming available in defence establishments and he should consult with the Secretary of State for Employment on the way in which these could best be used.

The Cabinet -

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

2. Invited the Ministerial Group on unemployment among young people to consider further the possibility of announcing before the Summer Recess the introduction of a work experience scheme and a job swap scheme; and to report back.

3. Invited the Secretary of State for Employment, when the June unemployment figures were published, to do no more than indicate that the possibility of further measures was under consideration.

4. Invited the Secretary of State for Defence, in consultation with the Secretary of State for Employment, to consider how the spare facilities in defence establishments for training apprentices could best be used.

Cabinet Office

15 July 1976

COPY NO 40

## CABINET

LIMITED CIRCULATION ANNEX

CM(76) 15th Conclusions, Minute 3

Thursday 15 July 1976 at 9.30 am

PUBLIC EXPENDITURE

Previous Reference: CM(76) 13th Conclusions

The Cabinet resumed their discussion of public expenditure and in the first part of their discussion had before them further memoranda by the Chancellor of the Exchequer (CP(76) 52), the Secretary of State for the Environment (CP(76) 49) and the Secretary of State for Energy (CP(76) 50).

THE PRIME MINISTER said that at their previous meeting there had been a clear majority in favour of an early statement of the Government's intention to reduce the public sector borrowing requirement (PSBR) next year but he had deliberately refrained from asking the Cabinet to take a final decision then, either on the need for this action or the form which it would take. He suggested that the Chancellor of the Exchequer, the Secretary of State for the Environment and the Secretary of State for Energy should speak to the further papers which they had circulated on the overall strategy and that the Cabinet should then proceed, without further repetition of the points which had been made at their previous meeting, to a decision on the need for a package of public expenditure cuts and its size. If the Cabinet agreed to this, they could then go on to consider the other papers before them which bore on the overall shape and detailed composition of such a package.

THE CHANCELLOR OF THE EXCHEQUER said that study of the national income forecast showed that on the basis of unchanged policies the money supply was likely to increase from a rate of 8-10 per cent this year to 12-15 per cent in 1977-78; and it would rise further if we were unable to borrow heavily overseas. Similarly domestic credit expansion would be up from £5.3 million to £9.8 million as a consequence of the recovery. This would result in a PSBR of £10,500 million which we would be unable to finance without choking off the recovery or printing money. In his view it was necessary to have a PSBR target of £9,000 million for 1977-78, but a target of this kind would have no credibility without the action to achieve it. Other industrialised countries were taking action to eliminate or significantly reduce their budgetary deficit: and it was

relevant that these were the countries whose agreement would be necessary if we had to borrow further externally. All this reinforced the recommendation which he had put to the Cabinet at their previous meeting and he felt bound to emphasise that unless action were taken before the Recess there was a strong likelihood of a catastrophic run on sterling during August. The decisions required were painful but the discussions which he had had the previous day with the Parliamentary Labour Party and with the Economic Committee of the Trades Union Congress led him to believe that the Government would be supported in taking the action which they judged necessary. Nor was there any alternative course. An approach to the International Monetary Fund (IMF) or an attempt to fund the sterling balances would be fruitless unless public expenditure had been cut: and the introduction of general import controls would both reduce our chances of borrowing and themselves require heavier public expenditure cuts.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Chancellor of the Exchequer had produced no argument to show that cuts of £1,000 million would be sufficient to re-establish confidence in our economic policies to a degree which would enable us to rebuild our reserves and avoid being forced to the IMF, and there was every reason to think that they would not. This package would therefore be a first instalment only and that was what made it so unacceptable. It would cause great damage to the Labour movement and yet sooner or later we would be forced to the IMF who would seek further cuts. The right course was to adopt an alternative strategy and to secure the main reduction in the PSBR through increases in taxation. The Cabinet had not finally closed this as an option at their previous meeting and he very much regretted that it appeared to have been foreclosed in the discussions which the Chancellor had subsequently had.

THE SECRETARY OF STATE FOR ENERGY said that he welcomed the public discussion of the situation which had taken place, particularly since this had exposed the weaknesses in the Chancellor of the Exchequer's arguments. No-one now believed that it was necessary to move further resources into exports and the balance of payments; we were in a deep slump and there was no suggestion of excessive pressure of demand. Equally so the financing argument had not been established. The confidence factor needed careful analysis. The danger was that our balance of payments would worsen because of the erosion of our manufacturing base. There was no sign of an investment boom and such recovery as we got would lead to a flood of imports and a further deterioration in the balance of payments. If the Cabinet decided on public expenditure cuts they would be adopting the psychology of failure which could only encourage extremist groups such as the National Front. The right course was to make such

savings in public expenditure as were practicable without damage to essential policies or to relations between the Government and the trade unions, to look at the possibilities of raising additional revenue through taxation, to open discussions with the IMF and to recognise that in any event we should need general import controls by the end of the year.

Summing up a short discussion THE PRIME MINISTER said that the whole Cabinet recognised the importance of preserving the Government's good relations with the trade unions. He recognised that some members of the Cabinet would prefer to have more time in which to consider alternative strategies and to discuss them with the Parliamentary Labour Party and the trade unions. On the other hand, he was bound to say that their criticism of the Chancellor's strategy had not been matched by convincing arguments in favour of any alternative course: indeed all alternative courses would seem to involve public expenditure cuts of at least equal size. He did not accept the view that the present package was merely a first instalment. He thought the Government's economic policies were gaining increasing respect overseas. There was however a feeling that we had been trying to do too much and other countries were looking to us to restrain public expenditure: if we did, there was every reason to think that we would be supported. He did not think that further discussion would lead the Cabinet to a unanimous view of the right course of action, but there was a clear majority in favour of announcing before the Recess a cut of £1,000 million in public expenditure for 1977-78 as compared with the White Paper figures, together with a PSBR target of £9,000 million: the composition of that package (including eg the possibility that in place of some part of the reduction proposed in food subsidies there might be increases in excise duties on spirits and tobacco) would form the next part of their discussion. He recognised that this central decision placed those who advocated alternative strategies in a difficult position but he hoped they would be able to accept the majority view.

The Cabinet -

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

The Cabinet also had before them a note by the Chancellor of the Exchequer (CP(76) 53) to which was attached a memorandum by the Chief Secretary, Treasury, on public expenditure and taxation 1977-78; a memorandum by the Minister for Overseas Development (CP(76) 47) about the overseas aid programme; and a memorandum by the Secretary of State for Prices and Consumer Protection and Paymaster General (CP(76) 48) about food subsidies.

In discussion attention was focussed on the broad shape which the £1,000 million package should take, including the extent to which it should include a taxation element. It was noted that, if the £1,000 million were made up in the manner proposed by the Chief Secretary, Treasury, in his memorandum, the effect was likely to be an addition of some 75,000 to the number of unemployed in the first half of 1978, although it was recognised that forecasts of this character were necessarily very uncertain. Cuts on capital programmes would cause unemployment in the construction industry; but other proposals - such as the reduction of mortgage lending by local authorities - would have little effect on unemployment. The effect of a cut of £1,000 million at 1976 Survey prices was now thought to be a reduction in the public sector borrowing requirement in 1977-78 of £1,000 million, rather than the £700 million which was the figure previously in mind. Of the items proposed, only about one-quarter would have any effect upon the social wage; and it was argued that those effects were less severe than would be the effects of additional taxation on those members of the community about whom the trade unions would be most concerned. It was noted that to produce a given effect upon the public sector borrowing requirement called for an increase in taxation larger than the alternative expenditure cut. It was, however, argued that the proposals in the Chief Secretary's paper were socially regressive and would have a serious impact upon the Social Contract. It appeared likely that the rate of inflation would cease to fall after the next month or so, and would remain fairly level until the end of 1976. Thereafter there would be a slow decline in the rate of inflation, but the Government would be very lucky if it went into single figures by the second half of next year. The combined effects of the devaluation of the pound, the beginning of the next transitional period of the United Kingdom's entry into the Common Market (which would add 1½ per cent to the Retail Price Index), the implications of the drought for food prices, and the hardening of world commodity prices, would all combine to keep up the rate of inflation, and this would produce a profound sense of disappointment in the trade unions. It would be against this background that the Government would be taking steps, through expenditure reductions, to increase prices. It may be that this could not be wholly avoided; but it would be important for the Government to do all it could to sustain the Social Contract, which was itself an important factor in the maintenance of overseas confidence. If the present relationship between the Government and the trade unions collapsed, overseas confidence would go too. From the point of view of the Social Contract, the impact of the proposed cuts on housing would need to be carefully considered, as would the proposed reduction in food subsidies, which would constitute a direct repudiation of the terms of the Social Contract itself.

Against this it was argued that both rent subsidies and food subsidies had been cut in the last package of reductions, and the effects of those cuts upon prices had already been taken into account in the forecast. The only additional effect which would arise from the further cuts in food subsidies now proposed would be an addition of one-quarter per cent to the Retail Price Index. If, instead of cutting expenditure, the borrowing requirement were reduced by an increase in indirect taxes, this could mean that there would be no fall in the Retail Price Index through the whole of the period of the second round of pay policy, since such a taxation increase would add some 3 per cent to the index. This would completely undermine the pay policy. In any case, it was important to remember that it might well be necessary to increase taxes in the 1977 Budget anyway, since expenditure cuts of £1,000 million would not be enough to bring the public sector borrowing requirement in the following year down to the £9,000 million which it was proposed to indicate publicly as the Government's target.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet had confirmed their earlier view that, while the possibility of including some tax increases in the present package was not altogether ruled out, the greater part would have to be made up of public expenditure cuts. It was important to note that many of the "cuts" were really only the deferring of expenditure until a later date; and credit should be taken for this in the public presentation of the figures. On the question of the priorities to be observed, it would be important to have further consultations with the Trades Union Congress (TUC) representatives; and while it would not be appropriate to discuss particular figures with them, it would be important to take their minds on the areas in which cuts might be less intolerable than elsewhere. On one point Cabinet were agreed; the main social security benefits should be excluded from the reductions.

The Cabinet -

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

The Cabinet then proceeded to consider each spending programme in turn.

Overseas Aid

THE PRIME MINISTER, summing up a brief discussion, said that it was generally agreed that, for the moment, there should be no decision to reduce overseas aid, but this might need to be reconsidered after Cabinet had gone through all the other programmes.

The Cabinet -

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

Defence

In discussion it was argued that it should be possible to save £140 million in 1977-78 by deferring capital programmes and purchases of equipment. It was true that this would lead to some unemployment, in the construction industry and elsewhere, but this was not a feature peculiar to the defence programme, since most capital cuts would have unemployment effects. Against this it was argued that this would be the fourth round of defence cuts in 19 months; and that those of the United Kingdom's allies who were pressing the view that the Government had allowed social expenditure to outrun productive capacity would not be impressed by a package which included a disproportionate element of defence cuts. A cut of £75 million might be possible, by a programme of deferments and a three month moratorium on all new building starts, although even this would be held to affect the force growth of NATO. It would mean a loss of 2,200 jobs in construction and 5,000 jobs in the defence industries. Any higher figure would not only lead to more unemployment, but would ignore the burden of the responsibilities borne by the Armed Forces for security in Cyprus, Belize, Malta, Gibraltar and the Falkland Islands, as well as the protection of offshore oil installations and the security task in Northern Ireland. To extend the moratorium on new starts from three months to six months would save an extra £10 million; but to go beyond this would be to cut into areas of expenditure of particular importance to the Germans and the Americans. One of these was Cyprus but we got little thanks for our presence there and it would be worth considering whether we could start reducing our commitment there and perhaps at least give up one of the Sovereign Base Areas. This would however take time to settle and could not be scored in the present exercise. The present expenditure figures assumed that a sum of £50 million would be received from West Germany as part of a renewed offset agreement; but this might not in the event be realised.

THE PRIME MINISTER, summing up this part of the discussion, said that there was general agreement in Cabinet that the figure of £140 million was probably too high, but that, subject to any further views of the Secretary of State for Defence, it should be possible to secure a saving of £100 million. The Foreign and Commonwealth Secretary, in consultation with the Secretary of State for Defence, should review the longer-term position in Cyprus.

The Cabinet -

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

Agriculture, Fisheries and Forestry

THE PRIME MINISTER, summing up a brief discussion, said that there was general agreement that, after offsetting the additional bids of £9 million, it should be possible to save a further £25 million on this programme without doing any serious harm to agricultural production. The Cabinet noted that the Minister of Agriculture would pursue the problem of legal difficulties about deferring payment on agricultural grants, and would consider the possibility of abolishing the lime subsidy, although it was noted that the latter had in fact been reinstated by the Government since taking office as a reversal of a decision by the previous Administration. One possibility might be to retain the lime subsidy for less favoured areas.

The Cabinet -

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

Food subsidies

The proposal before Cabinet was that food subsidies in 1977-78 should be cut by £150-£200 million. It was recognised that the timing of a cut of this kind - coming on top of the cuts which had been made in the previous package of reductions - created some difficulties, but that the effect upon the Retail Price Index was less than 0.3 per cent. Although it was not an easy area in which to make reductions, the alternatives could well be even more difficult. On the other hand it had to be recognised that food prices were an emotive issue. The difficulty was that to get the required saving in 1977-78, and to avoid having very heavy price increases at the same time in half a dozen basic foodstuffs, it was necessary to phase in the price increases in the course of 1976-77. It was argued that the impact of increased food prices was highly regressive, hitting worst those, such as the pensioner and the single parent family, least able to bear the strain (although it was pointed out that all subsidies had to be financed from taxation, and that the incidence of income tax at the lower levels of income was not all that progressive). To take the whole of the £1,000 million package on indirect taxation might add 3 per cent to the Retail Price Index; but the option available to the Government on food subsidies was to reduce subsidies less and make good the difference by higher duty on, say, beer and tobacco, where the impact would certainly be socially less

serious than an increase in the price of milk (which, taking account of subsidy reductions already agreed, would have to rise from 8½p a pint to 12½p a pint in a relatively short period). Bread and milk were more important than alcohol and cigarettes, and £50-£75 million was the most which should be taken off next year's provision for food subsidies.

In further discussion the possibility of an increase in employers' national insurance contributions, as an alternative to a cut in food subsidies, was put forward. This, however, had its own disadvantages - the reduction of company liquidity, the risk of discouraging the taking on of more workers, the addition to prices, the undermining of the Government's relationship with industry and the fact that legislation would be needed. Even the proposed increase in indirect taxation ran into timing difficulties, since the Finance Bill was not yet through Parliament; the early use of the regulator would produce tax increases before they were wanted; and the announcement next week of an intention to increase taxes next April could lead to forestalling. Since an increase of ½p in the price of milk saved £80 million, it should surely be possible to find ways of getting the total saving on food subsidies nearer to £200 million.

THE PRIME MINISTER, summing up this part of the discussion, said that it would not be possible to take any final decision on this item until the Chancellor of the Exchequer had had his further talks with representatives of the TUC. For the moment the Cabinet noted that the Secretary of State was now prepared to find £75 million.

The Cabinet -

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

Energy

In the last Public Expenditure White Paper (Cmnd 6393) no provision had been made for the capital expenditure of the British National Oil Corporation (BNOC) for 1977-78, because the information and policy decisions on which to base the estimate were not available, and it had been noted that the provision would be a charge on the Contingency Reserve. The requirement was now put at £197 million. It was argued that there was a fundamental absurdity about treating this figure as a part of public expenditure. The Government had a 68 per cent interest in British Petroleum Limited, but because it was treated as a private company its capital investment did not score as part of public expenditure. Again, the capital investment of British Nuclear Fuels Limited, in which there was a 100 per cent Government stake, did not score as

part of public expenditure. But BNOC's capital investment did and, under the present rules of the Public Expenditure Survey, would do so even if it were financed by borrowings on the private market. It was noted that Cable and Wireless Limited, which the Government also owned 100 per cent, was in exactly the same position, even when it wished to undertake profitable investment abroad which it could finance by borrowing overseas. There was a strong case for saying that BNOC should be allowed to borrow on the private market, and that such borrowing should not count as a part of public expenditure.

THE PRIME MINISTER, summing up this part of the discussion, said that there was a case for considering the present treatment of BNOC further. The Corporation was an infant industry, and it could be argued that now was the time for a fresh decision on the way in which its capital investment should be treated. An arrangement based on a genuine understanding of the trading and financial position of the Corporation would not lead anyone to think that the Government were trying to hide something. The Chancellor of the Exchequer and the Chief Secretary, Treasury, should therefore consider the question further and report to Cabinet at a later meeting.

The Cabinet -

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

8. Invited the Chancellor of the Exchequer and the Chief Secretary, Treasury, to consider the possibility of some change in the accounting arrangements for BNOC's expenditure, and to report back.

9. Agreed to resume their discussion early the following week.

Cabinet Office

15 July 1976

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CM(76) 16th
Conclusions

COPY NO 84

CABINET

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

MONDAY 19 JULY 1976

at 10.00 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr D le B Jones
Mr J A Marshall

CONTENTS

PUBLIC EXPENDITURE

Previous Reference: CM(76) 15th Conclusions, Minute 3

1. The Cabinet resumed their discussion of Public Expenditure. Their discussion and the conclusions reached are recorded separately.

HEALTH SERVICES BILL

2. THE SECRETARY OF STATE FOR SOCIAL SERVICES drew attention to the position of the Health Services Bill. After the guillotine motion had been passed the following day, it would be possible for the Committee to hold two meetings daily, so that the Bill would come out of Committee by 27 July. It would then be possible to take Report and Third Reading on 2 August; but this ran into the difficulty that the Government had wanted to avoid any controversial legislation during that week. He understood that it was planned to end the session on 11 November, and unless the House of Lords got the Bill before 11 October, there was a danger that it might be lost. This would be represented by the Opposition as a major triumph and could lead to serious trouble in the National Health Service. He therefore wished to press, in order to avoid any possibility that the Bill might be lost through lack of time in the Lords, that the Commons complete consideration of the Bill on 2 August.

In discussion it was argued that, while it was important to avoid the loss of the Bill, particularly in view of the trade union reactions which such loss would provoke, there were grave difficulties about taking such business in the week beginning 2 August. That week was already liable to contain a debate on public expenditure, as well as an Opposition Supply day, which meant that the avoidance of controversy could not be guaranteed anyway. The Health Services Bill, however, would require a Three Line Whip. In the week of 2 August this could be extremely difficult; some Government supporters might nevertheless be absent, with the result that the Bill would be defeated. This would be the worst outcome of all. On the other hand if the Bill did not reach the Lords until after 11 October, that House might refuse to pass it on the grounds that they had inadequate time for consideration. It was in any case very desirable that one month should elapse between receipt of the Bill in the Lords and the end of the Session so that if the Bill were not passed by the Lords this Session it could be passed under the Parliament Act next Session. One possibility would be the extension of the current Session, since the loss of the Bill would be politically very serious.

THE PRIME MINISTER, summing up the discussion, said that it was not possible to decide at present when the Session should end. The Cabinet had noted, and shared the concern of, the Secretary of State for Social Services over the possible loss of the Bill, but felt that the balance of argument was against attempting Report Stage and Third Reading in the week of 2 August.

The Cabinet -

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

Cabinet Office

19 July 1976

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CABINET

LIMITED CIRCULATION ANNEX

CM(76) 16th Conclusions Minute 1

Monday 19 July 1976 at 10.00 am

PUBLIC EXPENDITURE

Previous Reference: CM(76) 15th Conclusions, Minute 3

The Cabinet resumed their discussion of public expenditure and had before them additional memoranda by the Chancellor of the Exchequer (CP(76) 54) about the treatment of publicly owned industries and companies and by the Secretary of State for Social Services (CP(76) 55) about expenditure on health and social security.

THE PRIME MINISTER recalled that at their previous meeting the Cabinet had agreed on the need to make a cut of £1,000 million in public expenditure in 1977-78, but had not completely ruled out the possibility that some part of the package might consist of taxation increases, although it seemed likely that the great bulk would have to be found from expenditure. They had agreed that the main social security benefits should be excluded from the reductions. On defence, they had favoured a cut of £100 million, rather than the £140 million suggested by the Chief Secretary; on overseas aid, they had agreed that for the moment there should be no reduction, although this might need to be reconsidered later; on agriculture they had agreed that, after offsetting £9 million of additional bids, a cut of £25 million should be made; and on food subsidies they had taken no decision, but had noted that the Secretary of State for Prices and Consumer Protection was prepared to find savings of £75 million. They had then discussed a proposal by the Secretary of State for Energy that the capital investment of the British National Oil Corporation (BNOC) should be excluded from the public expenditure total; and on this question they had now received a further paper by the Chancellor of the Exchequer (CP(76) 54). He proposed that they should pick up their discussion where they had left it last time, and then proceed item by item in the order of the memorandum by the Chief Secretary attached to CP(76) 53.

British National Oil Corporation

In discussion it was argued that the BNOC had been shown in the previous February's White Paper (Cmnd 6393) as an identified item, although no provision had been entered for 1977-78 or subsequent years, any requirement being left as a claim on the Contingency Reserve. Furthermore, in the next White Paper provision would need to be made for British Aerospace and British Shipbuilders, and it was difficult to see how one could exclude one body at the same time as two others were being brought in for the first time. There was certainly a good case for saying that the investment of the nationalised industries as a whole should be excluded from the White Paper entirely, and that only their borrowing from the Government should be scored; and it was hoped that this could be done in the White Paper due to be published in the autumn. If, however, this produced a marked, and obviously only superficial, improvement in the overall figures, it would be attacked if such a change were made at the time the Government was seeking to boost overseas confidence by making cuts of £1,000 million in public expenditure. To exclude BNOC's expenditure alone in the statement to be made later in the week would be to invite criticism. It followed that the £197 million of BNOC expenditure would need to be offset by reductions in other nationalised industry investment.

Against this it was argued that on this basis cuts would have to be made in other spending programmes merely to satisfy a meaningless convention. Investment by British Nuclear Fuels Ltd, which was 100 per cent Government owned, did not score for public expenditure purposes and there was no reason why BNOC should not be treated similarly. It would be wrong to cut, eg food subsidies and social security, in order to finance BNOC's expenditure, particularly when the Corporation could borrow on the New York market on better terms than the Government. The 1977-78 figure for BNOC in the last White Paper had been nil, and the reclassification of a nil figure could scarcely be regarded as unfair.

THE PRIME MINISTER, summing up this part of the discussion, said that there appeared to be good sense in the idea of separating the investment of the nationalised industries from the remainder of public expenditure, and showing only the extent to which the industries borrowed from the central Government. This was a matter on which the Cabinet would need to consider a paper by the Chancellor of the Exchequer in good time before publication of the main public expenditure White Paper in the autumn. On the assumption that this change would be made in the autumn, it seemed most undesirable to have to accommodate the BNOC additional bid at this stage. Provisionally therefore the capital expenditure of the British National Oil Corporation should be excluded from public expenditure in the statement which would need to be made later in the week and the Treasury should give further consideration to how this could be explained.

The Cabinet -

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

Energy

It would be possible to find cuts of some £67 million on nationalised industry investment in the energy field. Of this, £20 million would come off the coal programme - although it would be difficult to present this as part of a package designed not to hit manufacturing industry - about £20 million from gas, by delaying the gas pipeline, and £20 million from electricity, the last being to some extent dependent upon a cut in the housing programme with a consequential reduction in the demand for connections. A further £16 million might be found from cutting the coal industry plant pool, which was coal face equipment purchased by the National Coal Board for use in the pits - which would mean the cancellation of orders - and some further reductions on gas. Beyond that £40-£45 million could be found in the field of nuclear policy by deferring the Steam Generated Heavy Water Reactor (SGHWR). This would provide total savings of £123 million; but if these were agreed, there was a strong case for offsetting against that saving the cost in 1977-78 of the proposed scheme for assisting poorer consumers of electricity. That cost was £10 million, so that the savings would be reduced to £113 million.

In discussion it was argued that the heavy electrical plant industry, a report on which would be coming forward from the Central Policy Review Staff before long, was likely to be badly hit by the absence of any need for further power station orders for the time being, and that the deferment of the SGHWR could mean the collapse of the industry itself, which employed some 25,000 people. Deferment of the SGHWR would revive demands for its cancellation, although on present plans the reactor was needed in Scotland and could not be replaced. A reduction in expenditure on the coal industry plant pool would affect a programme with direct consequences for work at the coal face.

THE PRIME MINISTER, summing up this part of the discussion, said that the position was that savings of £112 million could be made - £67 million on nationalised industry investment and £45 million on deferment of the SGHWR - which, after allowing £10 million for assistance to poorer consumers of electricity, left a net £102 million. There were however additional bids of some £35 million towards which the Secretary of State for Energy was only offering £2 million off the fast breeder reactor programme, leaving £33 million to be offset against the proposed savings. The Cabinet would therefore

score £69 million as the saving on this programme. They noted that they would need to consider the question of assistance to poorer electricity consumers again in view of the additional expenditure it would require in 1976-77. They would also have to consider, when they came to the Law, Order and Protective Services programme, the Secretary of State for Energy's offer to save £3.3 million on the civil defence oil stocks.

The Cabinet -

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

Industry

On regional development grants, it was explained that, for purely administrative reasons, these were now paid some three months after application. If the Government were to announce that actual payment would be delayed by a further six months, there would be a once-for-all saving of some £120 million. The Government could make clear, at the same time as at present, that the grant was going to be given, so that the firm could, if necessary, raise short-term finance from the banks to bridge the gap until actual payment. However, it was argued that this would be contrary to the main thrust of the Government's industrial strategy, and it would be preferable to impose a purely administrative delay of an additional two months, which would save £30 million. It was pointed out that a six month delay, given the rate of interest on bridging loans, was equivalent to a cut of 7 per cent in the value of the grant. It was noted that at a later point Cabinet would be considering the possibility of some reduction in the Regional Employment Premium; and the totality of the effect upon regional policy would need to be watched. If it were desired to save more than £30 million on regional development grants, it might be better to exclude some industries, eg construction, altogether from its scope rather than to go in for a longer period of delay in payment.

On nationalised industry investment savings of £65 million might be possible from the British Steel Corporation (allowing for recent decisions on Port Talbot and Redcar) and the Post Office. It was suggested that a larger cut than the proposed £20 million in Post Office investment might be possible.

THE PRIME MINISTER, summing up this part of the discussion, said that the Secretary of State for Industry should consider whether it would be possible to save £145 million net of the remaining additional bids of some £19 million on votes and £64 million for the investment programmes of British Aerospace and British Shipbuilders.

The savings could include £30 million from a two month delay in the payment of regional development grant; £20 million from exclusion of the construction industry from the scope of the grant; £65 million from nationalised industry investment; £5 million from the investment of British Shipbuilders and British Aerospace; and £25 million from miscellaneous items.

The Cabinet -

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

...d Trade

THE PRIME MINISTER, summing up the brief discussion, said that Cabinet agreed that the investment programmes of British Airways and the British Airports Authority should be cut by a total of £15 million; and that additional gross savings of £5 million, giving net savings of £2 million, should be made by the Secretary of State for Trade by deferring for one year the recently agreed programme of support for the film industry and further offsetting savings from the planned expenditure on civil aviation security and the promotion of exports and tourism.

The Cabinet -

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

...Employment

Additional bids on this programme totalled £94 million, including £35 million as a result of the equalisation of the rates for men and women of Regional Employment Premium (REP) at £3, and £30 million from the collective funding of apprentice training. It would be possible to abolish the payment of REP in Development Areas, leaving it only in Special Development Areas (but the effect of abolition would totally overshadow the merit of equalising); to delay equalisation for a year; or to introduce equalisation at a lower level, eg £2 a week. It was pointed out that REP was counted as a reduction of a firm's costs for the purposes of the Price Code, and it would be possible, in parallel with giving a lower equalised level of REP, to discount the premium for Price Code purposes, thus enabling firms to charge higher prices, a change which would be worth some £180 million to industry in terms of prices. This would, however, only benefit firms in a position to charge a higher price; and it thereby eroded the advantage which Development Areas

enjoyed from the REP. A saving of £15 million, as a partial offset to the cost of the collective funding of apprentice training, might be possible if the Manpower Services Commission could agree to bring in a levy to charge part of the cost to employers; or alternatively the introduction of collective funding could be delayed by six months. A further £18 million might be saved by reducing the employers' rebate on redundancy payments from 50 per cent to 40 per cent.

THE PRIME MINISTER, summing up this part of the discussion, said that the Secretary of State for Employment should consider making a net saving of £24 million after offsetting the additional bids of £94 million. This could be achieved by dropping the additional bid of £35 million for equalising men's and women's rates of Regional Employment Premium at £3, thereby saving £35 million, and equalising instead at £2 a week, thereby saving a further £50 million. In addition, £15 million could be saved by reducing expenditure on collective funding for apprentice training; and £18 million by reducing the employers' rebate on redundancy payments. These savings would total £118 million, which meant a net saving of £24 million.

The Cabinet -

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

Roads and Transport

There was an additional bid on this programme of £90 million, being prospective overspending by English local authorities mainly on concessionary fares and other transport subsidies. This was virtually ineluctable, and it was proposed to offset it by imposing a moratorium on the construction of new roads by local authorities, which would save £90 million. The question at issue was: how far should other road construction be cut back in order to make further savings. It would be possible to save a further £40 million by imposing a moratorium on the construction of new trunk roads in categories III and IV; and a further £35 million if there were cuts in categories I and II trunk roads also. It was noted that the roads programme had suffered repeated cuts in recent exercises; that roads were not altogether irrelevant to the industrial strategy, since some 80 per cent of goods travelled by road; and that there were strong environmental arguments in favour of taking through traffic flows out of towns. No road proposal got into the programme unless it showed a high rate of return or had decisive environmental advantages. The pattern of roads expenditure was such that capital cuts in 1977-78 inevitably meant even larger cuts in 1978-79 and some

further cuts in 1979-80. A reduction of £130 million in the programme next near could cost 9-10,000 jobs in terms of directly employed labour, and possibly double that in supporting industries.

THE PRIME MINISTER, summing up this part of the discussion, said that, over and above the £90 million cut which the Secretary of State for the Environment was prepared to make to offset the excess expenditure on transport subsidies, he should seek to make further cuts totalling £60 million. The Secretary of State for Scotland would find his usual proportion of 10 per cent, which would produce a further £6 million, and the Secretary of State for Wales would find £3 million, giving total net savings on roads expenditure of £69 million. A further £5 million could be found by reducing the investment programmes of the minor surface transport industries. Total savings on the programme would thus total £74 million.

The Cabinet -

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

Housing

There was a prospective overspend of £250 million in England in 1977-78 on this programme, of which some £150 million would be on new house-building, and £100 million on housing subsidies. The Housing Ministers had agreed that it would be necessary to impose immediate control on the new house-building programme, which was at present open-ended; and in England this would mean cutting the rate of approvals by local authorities from its present level of about 10,000 a month to 6-7,000 a month. Because housing stress areas would need to be safeguarded, the reductions would fall the more heavily on the non-stress areas. This would be sufficient to offset the prospective overspend of £150 million on house-building; and the Secretary of State for the Environment was prepared to find other savings of £100 million from local authority lending, municipalisation and improvement work to offset the overspending on housing subsidies. The subsidies themselves could only be reduced by legislation, which was not practicable at the present time. To get additional savings of £400 million, as had been suggested by the Treasury, would require a total moratorium on all new house-building. It was however argued that, if the Building Societies could be persuaded to take over some of the local authority mortgage lending, it might be possible to cut the present provision of £286 million - Great Britain - by £250 million, and then to save a further £100 million from the £402 (Great Britain) provision for improvement of local authority houses, £50 million from the provision of £139 million (Great Britain) for improvement grants to

the private sector and £50 million from the provision of £746 million (Great Britain) for investment by New Town Corporations and Housing Associations. In further discussion it was observed that the crucial judgment lay between rent increases and cuts in investment. Rents of local authority houses were grossly inadequate, and it was questionable whether the proposed increase of 60p a week in the rent next year was the maximum possible. One possibility might be to legislate simultaneously both to increase local authority rents and to reduce the tax relief on mortgage interest for owner-occupiers. However, this kind of change could not be made in the course of the current week; and in any case Ministers would before long have the Housing Finance Review before them covering the whole range of housing policy.

THE PRIME MINISTER, summing up this part of the discussion, said that the question of what could be done on local authority mortgage lending would have to be settled in the light of further discussions with the Building Societies which would be taking place later in the day. For the moment the Secretary of State for the Environment should consider what would be politically the least damaging way of saving £250 million on his housing programme as a whole, over and above the offsetting of his additional bids, and should report back to Cabinet the following day. The Cabinet had noted that the housing situation in Scotland was not parallel with that in England, and it was not therefore to be assumed that the Secretary of State for Scotland could offer 10 per cent of the English saving on all elements of his housing programme. They also noted that the Secretary of State for Wales would wish to speak further about his additional bid of £78 million when they returned to this topic.

The Cabinet -

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

8. Agreed to resume the discussion at their next meeting.

Cabinet Office

19 July 1976

CM(76) 17th Conclusions

COPY NO 86

# CABINET

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

MONDAY 19 JULY 1976

at 8.00 pm

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 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 D le B Jones
Mr J A Marshall

S U B J E C T

PUBLIC EXPENDITURE

PUBLIC EXPENDITURE

Previous Reference: CM(76) 16th Conclusions, Minute 1

The Cabinet continued their discussion of public expenditure which, with the conclusions reached, is recorded separately.

Cabinet Office

20 July 1976

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COPY NO 40

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 17th Conclusions

Monday 19 July 1976 at 8.00 pm

PUBLIC EXPENDITURE

(Previous Reference: CM(76) 16th Conclusions, Minute 1

The Cabinet resumed their discussion of public expenditure.

Nationalised Industries Investment

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet noted that, even excluding the bids in respect of the British National Oil Corporation, British Shipbuilders and British Aerospace, there was an additional bid in respect of other nationalised industry investment of £45 million which had not been excluded in the course of their discussion at their previous meeting of this expenditure programme. This meant that this additional bid at present stood to be set off against whatever total reductions might be agreed.

The Cabinet -

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

Housing (Wales)

In discussion of the Welsh housing programme, it was argued that the additional bid of £78 million in respect of 1977-78 was the outcome of an earlier failure to carry forward into that year the consequences of increased expenditure in 1976-77. Whereas total English expenditure on housing was estimated to fall between 1976-77 and 1977-78 only very slightly, the comparable Welsh figures showed a fall of over one-quarter. The Welsh figures

for new housebuilding showed an even more dramatic fall, of over one-third. Such figures were politically indefensible, and it was essential that the provision for housing in Wales should have a realistic starting point in 1977-78. Against this it was argued that it was misleading to take only one expenditure programme and make this kind of comparison. Of the additional bid of £78 million, £39 million was in respect of expenditure on improvements, municipalisation and mortgage lending.

THE PRIME MINISTER, summing up this part of the discussion, said that, while there was some sympathy in Cabinet with the political difficulty of defending a sharp fall in the Welsh housing figures, it was extremely difficult to contemplate, in the context of the present exercise to reduce public expenditure, adding substantially to the present figure. The Secretary of State for Wales had indicated that he was prepared to take the mean of the previous three years' total expenditure as the figure for 1977-78, which would reduce his additional bid to £66 million and then to take proportionately the same cut as England - 5 per cent, which would reduce his bid to £62 million. Such an increase was most unwelcome, but for the moment Cabinet took note that an additional bid of this amount should provisionally be allowed.

The Cabinet -

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

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In discussion it was noted that the total provision in 1977-78 in this programme for water services was £637 million, and for other environmental services some £324 million - both figures covering Great Britain. It was suggested that between them these might be cut by £100 million, of which £85 million would come from England.

THE PRIME MINISTER, summing up a brief discussion, said that the Secretary of State for the Environment was prepared to offer a reduction of £20 million on water services, and £20 million from capital expenditure on other environmental services. It was arguable that it would be embarrassing to cut more off water services at a time of drought, but in view of the fact that it would not be itemised in the public statement later in the week, it should be possible to increase the saving on that service by £10-£15 million This meant there could be a total saving, from English expenditure, of, say £55 million, which when the proportionate Scottish and Welsh shares were added would make total savings of £63 million.

The Cabinet -

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

Law, Order and Protective Services

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet noted that additional bids, totalling £35 million, would be withdrawn or offset, and that there was no scope for further savings on this block. The question of expenditure on the Urban Programme was under consideration by a Cabinet Committee.

The Cabinet -

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

School Meals

In discussion it was observed that the Government had undertaken to the Trades Union Congress (TUC) that the present school meal charge of 15p would not be raised during the current year and that the TUC's understanding of this was that this meant the year covered by the second round of the pay agreement. This made an increase in the charge in April 1977 unacceptable. If there were an increase of 5p in September 1977 that would leave an additional bid of £43 million in 1977-78. If the increase in September 1977 were raised to 10p, that would reduce the additional bid to some £15 million.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet favoured going for an increase in charges of 10p in September 1977, so that the net addition to this part of the education programme would be £15 million.

The Cabinet -

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

Other Expenditure on Education and Libraries, Science and Arts

THE PRIME MINISTER, summing up a brief discussion, said that this expenditure totalled £7,500 million. The Secretary of State had offered savings of £25 million, mainly in university and further education equipment, because the greater part of the current expenditure on education was in the hands of local authorities.

He was also prepared to offer £4 million from expenditure on science and arts. The Treasury had proposed a cut of £60 million all told. On balance Cabinet favoured a figure of £45 million for Great Britain which, when the additional bid of £15 million on school meals recorded in the previous discussion was netted off, would mean a net reduction, on a Great Britain basis, of £30 million on education expenditure.

The Cabinet -

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

Social Security

THE PRIME MINISTER, summing up a brief discussion, said that Cabinet noted that any additions arising from changes in demographic factors or economic assumptions were matters to be dealt with when the White Paper was prepared in the Autumn. There was general agreement that £10 million might be saved by restricting unemployment benefit for occupational pensioners; and that a further £13 million could be saved by delaying until November 1977 the introduction of the non-contributory invalidity pension for housewives. Against these savings there was an additional bid of £2 million from the uprating of, and the extension of eligibility for, the mobility allowance. It was therefore agreed that £21 million should be shown as the net savings.

The Cabinet -

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

Health and Personal Social Services

THE SECRETARY OF STATE FOR SOCIAL SERVICES, referring to his paper CP(76) 55, said that the Treasury had pressed him for total savings of £90 million, made up of £20 million from an increase in dental and opthalmic charges; £40 million from a moratorium on capital expenditure; and £30 million from a reduction in current expenditure to meet the £30 million cost of the Jubilee Holiday and junior doctors' overtime. He was prepared to agree to £20 million from dental and opthalmic charges - which would mean a flat rate increase from £3.50 to £6; to a saving on capital expenditure of £20 million, of which £10 million would come from the National Health Service and £10 million from the Personal Social Services - any further cut would reduce the provision for replacement of vehicles, X-ray and fire precaution equipment to a dangerous level; to offset the additional bids in respect of the

Jubilee Holiday and doctors' overtime; and to get £20 million - an estimated product of six months of the scheme - from a levy on motor insurers for road accident costs. Thus, after off-setting the additional bids, he was offering £60 million. If more were needed than this it should in his view come from an increase in the employers' National Health Service contribution, where an increase of 0.1 per cent would yield £60 million.

THE PRIME MINISTER, summing up a brief discussion, said that it was generally felt that, while the idea of a levy in respect of road accident costs was valuable and should be pursued, there must remain grave doubts whether the scheme could be worked out and the required legislation passed in time to yield half of a full year's saving in 1977-78. However, the Secretary of State was prepared to undertake, if it proved impossible to get that element in the saving, to find other savings elsewhere to replace it. On this basis Cabinet agreed that a figure of £60 million should be scored as the saving on this programme.

The Cabinet -

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

Assistance to Poorer Energy Consumers

In discussion it was noted that last year the Ministerial Committee on Economic and Industrial Policy had examined the possibility of tilting tariffs in such a way as to assist the poorer consumer; but they had been unable to find any satisfactory way of achieving this. More recently the Committee had agreed to consider ways of spending some £25 million to this end; and a highly selective scheme had now been designed under which, by concentrating the help on recipients of Supplementary Benefit and of Family Income Supplement who were electricity consumers, it would be possible to give a 15 per cent reduction on electricity bills over the two winter quarters. This would cost £15 million in 1976-77 and £10 million in 1977-78; and the Secretary of State for Energy had indicated that he would be prepared to accommodate the £10 million by other savings in his programme. The £15 million might be treated as a claim on the Contingency Reserve for 1976-77.

THE PRIME MINISTER, summing up a brief discussion, said that it would not be appropriate for Cabinet to agree forthwith on this additional expenditure of £25 million, since the scheme which had been proposed would need to be examined collectively on its merits. Nevertheless it would be helpful when making the announcement of the major cuts if the Government could indicate that they were considering how to help these poorer consumers. The Ministerial

Committee on Economic and Industrial Policy should therefore pursue the matter further. In the meantime the additional bid of £10 million for 1977-78 could perhaps remain a claim on the Contingency Reserve.

The Cabinet -

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

Common Services

THE PRIME MINISTER, summing up a brief discussion, said that savings of £10 million should be scored on this programme, but the Secretary of State for the Environment should consider whether more could be achieved without interfering with the dispersal of the Civil Service.

The Cabinet -

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

Northern Ireland

THE PRIME MINISTER, summing up a brief discussion, said that the Secretary of State for Northern Ireland could not be present for this discussion but the Cabinet provisionally agreed that a saving of £25 million should be made on this programme, being a proportionate share for Northern Ireland of the cuts being made in other parts of the United Kingdom.

The Cabinet -

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

Scotland

In discussion it was argued that an additional £22 million should be added to the expenditure for 1977-78 in respect of local authority current expenditure since this was an unavoidable consequential of an increase of £26 million in 1976-77 which had not been carried through to the later years. This was not identical with the increase in local authority current expenditure in England and Wales, but flowed from the fact that local authority reorganisation had taken place in Scotland one year later than elsewhere.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet could not at this stage accept that £22 million should be added to the Scottish figures.

The Cabinet -

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

Other Matters

THE PRIME MINISTER said that the Cabinet had not so far agreed on savings totalling £1,000 million. The Cabinet Office would prepare a table for circulation at their meeting on the following morning showing what had been provisionally achieved so far. Members of the Cabinet should in the meantime give further thought to other possibilities.

In discussion it was suggested that one possible course was to make an across-the-board cut on all current expenditure. On the other hand much current expenditure was under the control of local authorities. To score a cut in that expenditure would be unconvincing, since the Government had not so far been able to get the local authorities down to the agreed level for the current year, and figures to demonstrate this would shortly become publicly available. A severe Rate Support Grant settlement might be one solution; but this would penalise the co-operative local authorities as well as the unco-operative. In any case some current expenditure, e.g. on prisons, was demand-related and not susceptible to an across-the-board cut.

It was also suggested that the Government should consider the possibility of making additional money available for the National Enterprise Board. Of the 1976-77 provision only £24 million remained uncommitted; and of the £225 million allowed in 1977-78, the whole was likely to be needed for Rolls Royce and British Leyland. It could help to present the major cuts if the Government could demonstrate that more money was being put into the National Enterprise Board to facilitate its major role of job promotion.

In further discussion the Cabinet were informed that the Trades Union Congress (TUC) had expressed no strong view to the Chancellor of the Exchequer on the priorities which should be observed if cuts could not be avoided. The TUC had, however, indicated that increases in income tax and indirect taxes would be very damaging for the pay policy. On the other hand it was relevant that there were other items - food subsidies - which could be equally explosive; and that the TUC leaders had succeeded in getting the approval of the special meeting in June to the pay policy only on the basis that they would

oppose expenditure cuts. The Government must therefore necessarily tread very carefully in the items it chose for reductions.

THE PRIME MINISTER, summing up the discussion, said that Cabinet would resume their discussion on the following morning when it would be necessary to go through all the items again in order to achieve the required total.

The Cabinet -

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

14. Agreed to resume their discussion the following morning.

Cabinet Office

20 July 1976

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THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

CM(76) 18th
Conclusions

COPY NO 84

CABINET

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

TUESDAY 20 JULY 1976

at 10.00 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr D le B Jones
Mr J A Marshall

S U B J E C T

PUBLIC EXPENDITURE

PUBLIC EXPENDITURE

Previous Reference: CM(76) 17th Conclusions

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

Cabinet Office

20 July 1976

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

COPY NO 40

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 18th Conclusions

Tuesday 20 July 1976 at 10.00 am

PUBLIC EXPENDITURE

Previous Reference: CM(76) 17th Conclusions

The Cabinet resumed their discussion of public expenditure. There was circulated at the meeting a list prepared by the Secretariat of the changes in individual programmes which had provisionally been agreed at the earlier meetings.

THE PRIME MINISTER said that on the reckoning to date the Cabinet were still £118 million short of their target of total reductions of £1,000 million. He therefore proposed that they should again run through the individual programmes.

Defence

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet appreciated that cuts here meant increased unemployment, not least in the construction industry since, to help raise the savings from £75 million to £100 million, the Secretary of State for Defence would be deferring for up to a year the building of 900 married quarters. Nevertheless, it was agreed that the saving to be scored against defence should be £100 million.

The Cabinet -

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

Overseas Aid

THE PRIME MINISTER, summing up a brief discussion, said that there was some feeling in Cabinet that this programme should suffer some modest cut; but the majority view was still that the United Kingdom's external image derived from her good aid record should not be tarnished for the sake of a relatively small sum. It was therefore confirmed that no reduction should be made on the present round, though the Cabinet could return to the possibility if necessary after going through all the other programmes.

The Cabinet -

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

Other Overseas Services

THE PRIME MINISTER, summing up a brief discussion, said that total expenditure under this head in 1977-78 was £305 million. Part 1 of the Review of Overseas Representation (the Berrill Report) was available, but Part 2 would not be ready until the end of the year. It was likely that the report would suggest economies, and the Cabinet felt that some saving on account might be scored. It was agreed that a reduction of £10 million should be made. There appeared to be no possibility of reducing the figure for Contributions to the European Communities, nor of making any change in the provision for the Joint European Torus which was under discussion in Brussels.

The Cabinet -

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

Agriculture, Fisheries and Forestry

THE PRIME MINISTER, summing up a brief discussion, said that the Minister of Agriculture would prefer to save £20 million on this programme rather than the £25 million previously proposed; but the general view in Cabinet was that they should stick to the saving of £25 million after offsetting the additional bids.

The Cabinet -

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

Food Subsidies

The cut provisionally agreed the previous day was £75 million, which was £25 million more than the original offer by the Secretary of State for Prices and Consumer Protection. In discussion it was argued that food subsidies were of particular importance to the trade unions, partly for symbolic reasons, and partly because of their real effect upon prices. The need to subsidise food was part of the original Social Contract and had appeared in more than one Labour Party Manifesto. In terms of public expenditure saving the difference between £50 million and £75 million - which could mean two increases in the price of milk in 1977 instead of one - was not worth the strong reaction it could provoke. This could in fact prove to be the last straw with the

trade unions. It was noted that, even before the £75 million cut now contemplated, past decisions would require a successive series of increases in food prices as subsidies were phased out, including three increases in the price of milk during the currency of the pay policy; and that if cuts above £75 million were made, it would mean ending all subsidies except on milk during that time. Any change on the European front - eg in the value of the "Green Pound" - would be a very serious embarrassment when food subsidies were being run down so rapidly. On the other hand, it was observed that, under existing plans, expenditure on food subsidies would fall from £408 million in 1976-77 to £280 million in 1977-78; and that consequently the difference between a further £50 million and a further £75 million could hardly be a crucial factor in the reaction which would be likely to come from the trade unions. Even a cut of £100 million would only increase the Retail Price Index by something like 0.2 per cent.

THE PRIME MINISTER, summing up the discussion, said that the balance of opinion in the Cabinet favoured keeping the reduction at £75 million.

The Cabinet -

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

Energy

In discussion of the treatment to be accorded to the capital expenditure of the British National Oil Corporation (BNOC) it was recalled that on the previous day Cabinet had agreed that provisionally this capital expenditure should be excluded from public expenditure in the statement to be made later in the week; and had invited the Treasury to give further consideration to how this could best be explained. There were formidable difficulties over this since, whereas BNOC would be excluded to avoid having to score additional expenditure in 1977-78, credit would be taken for cuts on the other nationalised industries. BNOC, like other nationalised industries, and unlike British Nuclear Fuels Ltd, was a statutory corporation. If BNOC alone were excluded this would be seen as a presentational device and the validity of the whole package might suffer some damage. Against this it was argued that no figure for BNOC's requirements in 1977-78 had yet been published, nor would it be known. Given the intention to take all nationalised industries out of public expenditure and treat them separately in the autumn White Paper, there was everything to be said for avoiding the burden of the additional £197 million in the figures now under consideration by Cabinet, and presenting the change as justified by the fact that BNOC, following the recent participation agreements, was now a new industry whose investment should from the start be treated as

separate from the ordinary run of public expenditure - especially if, as was suggested, the Corporation was capable of borrowing in its own right, and without Government guarantee, on the overseas market.

THE PRIME MINISTER, summing up this part of the discussion, said that the majority view in Cabinet was that it would be justifiable to keep BNOC expenditure out of the public expenditure figures in the statement to be made later in the week, but that it should be made quite clear what was being done and why, so as to avoid any risk of subsequently being charged with having attempted to hide anything. As for the remaining cuts on the energy programme, it was not necessary for the £10 million which would be the cost in 1977-78 of the scheme for helping poorer energy consumers to be offset against the savings because that scheme had yet to be examined and approved and its cost should therefore properly be treated as a potential claim on the Contingency Reserve. It might be that possible reductions in the additional bids on the fast reactor programme and civil defence oil stocks (the latter appearing under the law and order programme) had not been fully scored. This point should be examined further between officials. Apart from that last point, the savings to be scored under this head were therefore £79 million. Some care might need to be taken, because of its importance in Scotland, about the presentation of the deferring of the steam generating heavy water reactor.

The Cabinet -

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

Industry

In discussion it was noted that when, on the previous day, the Secretary of State for Industry had indicated that he could find savings of £145 million net on his programme, he had meant that he could absorb the additional bids of "some £19 million" referred to in paragraph 24 of the Chief Secretary's memorandum attached to CP(76) 53, but not the £64 million required for British Shipbuilders and British Aerospace referred to in paragraph 26 of that paper. The Secretary of State was prepared to accept a reduction of £5 million in the latter expenditure.

THE PRIME MINISTER, summing up a brief discussion, said that, given the present legislative position, it would be reasonable to leave the additional bids in respect of British Shipbuilders and British Aerospace as a claim on the Contingency Reserve. Cabinet had discussed the possibility of increased savings on Regional Development Grants, and it might be in the longer term that there would be some possibility of saving money by de-scheduling some areas - eg North Scotland - or by finding ways of excluding capital

intensive projects, such as oil installations. This however would take time. For the moment the Secretary of State for Industry was prepared to find a further £15 million of savings by an additional one month of administrative delay in the payment of Regional Development Grants, and it was agreed that this should be scored making a total saving of £160 million.

The Cabinet -

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

Trade

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet confirmed that a saving of £17 million should be made under this head.

The Cabinet -

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

Nationalised Industry Investment Programme

THE PRIME MINISTER, summing up a brief discussion, said that they had noted the previous day that there were additional bids of £45 million on this programme which had not been offset. One possibility might be to give the public expenditure figures without including the nationalised industries at all, and to make clear that certain changes, producing a net saving of £110 million were being made in nationalised industry capital programmes. However, if this were done the total savings would be that much more short of the target of £1,000 million. On balance the Cabinet preferred to leave the presentation as agreed.

The Cabinet -

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

Employment

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet confirmed that £24 million should be saved on this programme but, in order to avoid unnecessarily damaging training expenditure the Secretary of State for Employment should be given flexibility so that he could try to make some savings by persuading employers to take on a larger share of the administrative costs of the Industrial Training Boards.

The Cabinet -

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

Northern Ireland

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet noted that, as a result of some of the cuts agreed for other parts of the United Kingdom, cuts in Northern Ireland might, on the basis of parity, be increased by £3 million; and the Secretary of State was prepared to increase this if he possibly could to £10 million. This meant that the total saving on this block should be increased from £25 million to £35 million.

The Cabinet -

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

Common Services

THE PRIME MINISTER, summing up a brief discussion, said that there appeared to be no possibility of cuts in expenditure on maintenance or rents; and the view of officials was that the capital programme could not be cut further. However, the Secretary of State for the Environment would consider the last point later in the day and report back.

The Cabinet -

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

Other Public Services

THE PRIME MINISTER, summing up a brief discussion, said that although there was total expenditure of £849 million on this block, there did not appear to be any reliable scope for making a cut.

The Cabinet -

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

Law Order and Protective Services

THE PRIME MINISTER, summing up a brief discussion, said that Cabinet confirmed that there was no saving to be had on this programme.

The Cabinet -

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

Roads and Transport

*THE PRIME MINISTER, summing up a brief discussion, said* that the Cabinet noted that the provisionally agreed cuts of £60 million in the English road programme would lead to additional unemployment of 23,000. Nevertheless, if the cuts were increased to £75 million there would still be £80 million left for new trunk road construction, and the balance of opinion in the Cabinet was that they should go for the higher saving. Comparable savings on Scottish and Welsh roads expenditure would be £8 *million* and £4 *million* respectively, giving a total for the block of £87 million.

The Cabinet -

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

Housing: England

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

a. The £250 million saving shown in the Secretariat's table as related to England was in fact intended to cover Scotland also. The English share would be £200 million. Of this the Secretary of State for the Environment felt able to offer only £100 million (after eliminating his £150 million overspend on housebuilding).

b. Local authority mortgage lending should be capable of further cutting if the Government could negotiate with the Building Societies and the banks to take over some of the lending, even if the Government had to guarantee loans on sub-standard houses. This was under discussion with the Building Societies.

c. The improvement work by local authorities represented good value for money and should not be reduced.

d. Improvement grants to the private sector might be phased down; but this would require legislation.

e. Expenditure by the New Towns and Housing Associations might be capable of some reduction. The expenditure scored against the housing Associations consisted of grants and loans to the Associations; it might well be possible for the Associations to increase their borrowing from the banking system, and it was confirmed that if this were done it would reduce both public expenditure and the public sector borrowing requirement, since the Associations were treated as part of the private sector. To achieve this result it would however be necessary for the Associations to borrow direct from the banks and not through the Housing Corporation.

f. Another possibility might be to reduce the percentage subsidy represented by grants to housing Associations, which were as high as 75 per cent.

g. The municipalisation programme was already being cut to some extent in order to offset the additional bid on housing. The programme was a useful one, since local councils bought houses, sometimes in stress areas, which otherwise might stand empty, encouraging squatting.

THE PRIME MINISTER, summing up this part of the discussion, said that at this stage it did not seem possible to increase the saving on this programme beyond the £100 million proposed by the Secretary of State for the Environment. The Secretary of State should however investigate the possibility of transferring some housing Association borrowing to the banking system and report back.

The Cabinet -

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

Housing: Scotland

THE PRIME MINISTER, summing up a brief discussion, said that Cabinet accepted that conditions in Scotland did not parallel those in England. There was no housing overspend to be offset; and it would not be possible to take 20 per cent of the English cut on local authority mortgage lending, which would be £20 million, since total such lending in Scotland was only £12 million. Nor was there any municipalisation programme in Scotland. On balance the Cabinet took the view that Scottish housing as a whole might be cut by £12 million.

The Cabinet -

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

ousing: ales

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet fully appreciated the difficulty of the Welsh position, with expenditure in 1977-78 planned in the last White Paper to fall well below that in 1976-77. Nevertheless, it was not acceptable that there should be an increase as large as £62 million in Welsh housing expenditure at a time when a cut of £100 million was being made in England and £12 million in Scotland. On balance the Cabinet view was that an additional bid of no more than £20 million could be agreed.

The Cabinet -

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

er ironmental vices

THE PRIME MINISTER, summing up a brief discussion, said that the Secretary of State for the Environment was prepared to increase his offer of savings on this block from £55 million to £70 million. If comparable increases were made in the Scottish and Welsh savings they would rise from £8 million to £11 million, making a total saving on the block of £81 million.

The Cabinet -

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

neral

THE CHANCELLOR OF THE EXCHEQUER showed the Cabinet a copy of a letter which he had received from the Trades Union Congress (TUC) about expenditure cuts. He indicated that, in his discussion with the TUC representatives the previous Friday little indication had been given on trade union preferences on priorities, no doubt because these would affect different trade union members in different ways. From a more recent talk he had had with Mr Len Murray, his impression was that the TUC would do their best to assist the Government, although they would necessarily have to oppose the cuts fairly strongly. There was no intention on the part of the TUC leaders, however, that the cuts should be allowed to affect support for the pay policy.

In discussion it was suggested that perhaps the TUC reaction would be rather sharper than had been suggested, particularly when they saw the figures and the items involved. Indeed, there was a case for reconsidering the composition of the package, which at present bore heavily on unemployment and on industrial policy, both of which were of great importance to the trade unions. If there were

a sharp and adverse reaction from the unions or from the Labour Party this could itself react badly on confidence overseas, which it was the purpose of the package to boost. It might even be preferable to accept a smaller package which avoided so much addition to unemployment. Against this it was argued that a smaller package might well be inadequate to achieve its purpose - and it was noted that Cabinet was still over £100 million short of its target. Presentation would be extremely important, and the possibility of some additional expenditure for the National Enterprise Board, as a means of making the package more acceptable to Party opinion, should be borne in mind.

THE PRIME MINISTER, summing up the discussion, said that it would not be desirable for Cabinet to go over all the expenditure items again; but there were still some programmes which had not been re-examined, and they would need to be considered further the following day. He proposed that this should be done the following morning, when Cabinet could also consider what action might be taken to close the gap to make up £1,000 million. A further meeting would take place the following evening to consider a draft of the statement which the Chancellor of the Exchequer would propose to make in Parliament on Thursday 22 July.

The Cabinet -

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

21. Agreed to resume their discussion the following morning.

Cabinet Office

20 July 1976

THIS DOCUMENT IS THE PROPERTY OF HER BRITANNIC MAJESTY'S GOVERNMENT

CM(76) 19th Conclusions

COPY NO 84

CABINET

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

WEDNESDAY 21 JULY 1976

at 10.00 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot 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 Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

The Rt Hon Anthony Wedgwood Benn MP
Secretary of State for Energy (Item 2)

The Rt Hon Eric Varley MP
Secretary of State for Industry

The Rt Hon Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

The Rt Hon Merlyn Rees MP
Secretary of State for Northern Ireland (Item 2)

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr D le B Jones
Mr J A Marshall

CONTENTS

ASSASSINATION OF HM AMBASSADOR IN DUBLIN

1. THE PRIME MINISTER informed the Cabinet that news had just been received that a landmine had been detonated outside the British Ambassador's Residence in Dublin. The Ambassador had been killed and also the Private Secretary to the Permanent Under Secretary of State of the Northern Ireland Office who was visiting Dublin. The Permanent Under Secretary had himself been very seriously injured and serious injuries had also been sustained by the driver of the car in which they were travelling.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet wished to place on record their horror at this outrage and their deep sympathy with the next-of-kin of those who had been killed and also with the injured.

The Cabinet -

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

PUBLIC EXPENDITURE

Previous Reference: CM(76) 18th Conclusions

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

Cabinet Office

21 July 1976

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COPY NO 40

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 19th Conclusions, Minute 2

Wednesday 21 July 1976 at 10.00 am

PUBLIC EXPENDITURE

Previous Reference: CM(76) 18th Conclusions

The Cabinet resumed their discussion of public expenditure. There was circulated at the meeting a list prepared by the Secretariat of the changes in individual programmes which had been agreed at the earlier meetings.

THE PRIME MINISTER said that the total reductions agreed so far came to £867 million - £133 million short of the target of £1,000 million.

Overseas Aid

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet confirmed their previous view that there should be no cuts in this programme.

The Cabinet -

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

Other Overseas Services

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet had previously agreed to a reduction of £10 million on this programme; but it was now thought that, pending the receipt of the Berrill report, that might be an unduly severe cut to make, and that consequently only £5 million should be shown as a saving.

The Cabinet -

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

Agriculture, Fisheries and Forestry

THE PRIME MINISTER, summing up a brief discussion, said that when the Minister of Agriculture, Fisheries and Food had agreed to a net cut of £25 million, he had been under the impression that deferring capital grants by three months would save £20 million, whereas it was now thought that only £11 million could be saved in this way. This would cut the saving to £16 million, and the Minister of Agriculture, Fisheries and Food was prepared to offer a further £4 million making £20 million. Nevertheless, the general view of the Cabinet was that it should be possible - perhaps by delaying the payment of the capital grants by a further month - to make up the balance of the saving, and that they should continue to score £25 million against this programme.

The Cabinet -

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

Food Subsidies

THE PRIME MINISTER, summing up a brief discussion, said that, while there was some reluctance in Cabinet to cut food subsidies at all, they had previously decided on a reduction of £75 million. The general view now was that the effects, in terms of the date and frequency of price increases, of a marginal further cut were so minimal that they would be justified in making a cut of £80 million instead of £75 million.

The Cabinet -

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

Energy

THE PRIME MINISTER, summing up a brief discussion, said that the Secretary of State for Energy was prepared to make three additions to the savings of £79 million which had been agreed the previous day. These were: £3 million from the elimination of an additional bid for civil defence oil stocks; £7 million from selective assistance under Section 8 of the Industry Act for new technology for North Sea operations; and £4 million (including the £2 million which he had already offered) from slowing down the development of the fast breeder reactor. This would give total savings under this head of £91 million.

The Cabinet -

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

Industry

In discussion it was argued that a good deal of the expenditure on industrial support, particularly of an indiscriminate character, was not fully justified, and would be even less necessary in 1977-78 when it was likely that the private sector would be making large profits. It should be possible to make savings in this field, eg by reducing the rate of Regional Development Grant, where a reduction of 5 per cent would save £80 million. Against this it was argued that, while there might be some unnecessary expenditure here, sizable reductions on both energy and industry had already been agreed - totalling between them more than one-quarter of the target - and that there was a danger that this might be seen as contrary to the main thrust of the Government's strategy for industrial expansion. Indeed, the Cabinet should consider whether there should not be some additional funds provided for the National Enterprise Board, which was the Government's chosen instrument for selective intervention in the economy; but it was argued from this that the right course was to reduce automatic and unselective assistance and concentrate resources on the National Enterprise Board. The system of Planning Agreements should be used to channel assistance to industry.

THE PRIME MINISTER, summing up this part of the discussion, said that on balance the Cabinet did not favour a further reduction in this programme, although it was an area which might need to be considered further at the Cabinet meeting later in the day. For the future the Secretary of State for Industry should consider how industrial assistance could be made more selective, for example by channelling more of it through the National Enterprise Board; and it might be desirable to make it clear in the statement that this review was being undertaken.

The Cabinet -

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

Nationalised Industries

THE PRIME MINISTER, summing up a brief discussion, said that at their previous meetings they had noted miscellaneous nationalised industry bids of £45 million and a saving, in respect of Scotland, of £1 million under Surface Transport Industries. It was now understood that the latter item should be deleted, but there should additionally be shown a saving on Scottish nationalised industries of £10 million.

The Cabinet -

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

Education

In discussion the following points were made -

a. The savings - a net £30 million - agreed so far under this head related to capital equipment at universities and in further education institutions, and expenditure on science and arts partly offset by the additional bid of £15 million on school meals. There was no cut on school expenditure, and it was arguable that the general view in the Labour Party would be to give higher priority to housing - where the Government was contemplating a heavy cut - than to schools. On the other hand, it was noted that on the last round of cuts the capital expenditure on schools had been cut right back to basic needs.

b. The capital programme for nursery provision was very low compared with that for schools, and it was likely that there would be no room for new starts for nursery accommodation in 1977-78. The possibility of switching to nursery accommodation some of the provision of schools was mooted, but since the latter was confined to basic needs there was unlikely to be any money to spare for this purpose.

c. £25 million was spent by the Foreign and Commonwealth Office and the Ministry of Defence, and a further £25 million by local authorities, on sending children to Independent schools. It was argued that this expenditure should be phased out. There was sympathy in principle for this view, although it was observed that without some such provision it would be difficult for middle-ranking diplomats posted overseas to ensure proper education for their children. One possibility might be to give lower allowances when the officer concerned was posted in the United Kingdom. It was

agreed that no saving could be made on this for the purposes of the present exercise, but that there was scope for an examination of the present arrangements.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the saving on education should remain at £30 million (net of school meals). It was however felt that the payment by the public sector of the cost of educating children in the private sector was a matter which required further study.

The Cabinet -

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

Local Authority Current Expenditure

In discussion it was observed that one of the difficulties about local authority current expenditure was, not only that it was not directly controlled by the Government, but that the way in which the system worked was such that it was never possible to pinpoint precisely where overspending had taken place. Figures of relevant expenditure were agreed, programme by programme, with the local authority representatives; and Rate Support Grant was then given on the resultant total. It was, however, entirely within the competence of individual local authorities to decide how they would use their grant and how they would allocate their total current expenditure. The cash limit system applied only to the element of Rate Support Grant - local authorities were given advance warning that the amount they would get later in the year under the Increase Order in respect of price increases would be limited to a previously stated amount. Although the Rate Support Grant was a strong influence on local authority spending, the authorities were still free, either by raising increased rates or by spending their balances, to run their current expenditure at a higher level than the Government might wish. In the current year, although the Government had been pressing the local authorities hard to cut their expenditure back to the planned level, it was still likely that some £200-£300 million of overspend was in prospect. The Government had no powers to prevent this. It was suggested that in some authorities the number of social workers employed was completely out of proportion to the need. A general manpower watch had been instituted, in co-operation with the local authorities, and joint committees were examining the problems of manpower in conjunction with the unions.

THE PRIME MINISTER, summing up the discussion, said that, while no saving on local authority current expenditure could be counted in the £1,000 million package, there was a serious need to get some grip on the problem of local authority manpower and the Cabinet would need to have this aspect in mind when they came to consider the Layfield Report.

The Cabinet -

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

Health and Personal Social Services

In discussion it was argued that a great deal of the money spent on personal social service work was wasted, consisting of too many ill-equipped and inadequate people trying to deal with problems which were beyond them. Against this it was suggested that in fact the bulk of the expenditure under this head went on such things as old people's homes and home helps, and field work by social workers was only a small part of the whole. There was thus no great scope for saving. Furthermore, the bulk of the expenditure was current expenditure under the control of local authorities.

THE PRIME MINISTER, summing up the discussion, said that the Secretary of State for Social Services had expressed his willingness to increase the proposed saving on health and personal social services from £60 million to £70 million and this was agreed.

The Cabinet -

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

Social Security

THE PRIME MINISTER, summing up a brief discussion, said that it was agreed that no further saving could be made in this programme beyond the £21 million already agreed. Studies were in hand on student claims for supplementary benefit and on the abuses of the social security system; but it would not be sensible to count savings from these until they had been received and considered.

The Cabinet -

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

Common Services

THE PRIME MINISTER, summing up a brief discussion, said that further savings could not be had on this programme unless dispersal of the Civil Service were to be postponed for a year. Cabinet confirmed that the saving should remain at £10 million.

The Cabinet -

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

Housing

In discussion it was argued that it should be possible to reduce the provision for loans to housing Associations if it were possible to arrange for the Associations to obtain finance from the private sector. One other possibility would be to replace building grants by interest relief grants, since by this means the public expenditure figure could be cut by 85-90 per cent without there being any reduction in the funds available to the Associations. However, whereas it had been possible to have discussions with the Building Societies about their taking over part of local authority mortgage lending, no such consultation had taken place with the institutions who might take over part of the financing of housing Associations. It would therefore be unwise to count any saving from this source. However, to meet this difficulty it was suggested that a saving might be shown on this account, on the understandings that the Treasury would advise the banks that this was an area of high priority for loans and that if it proved impossible to make suitable arrangements with private sector institutions the sum concerned would then be accepted as a justifiable claim on the 1977-78 Contingency Reserve. On this basis a saving of £35 million for Great Britain might be appropriate, with Scotland and Wales each taking their proportionate share.

On local authority mortgage lending a saving of £150 million (of which £50 million was earmarked as an offset to additional bids) had been agreed for England; and it was agreed that a further £25 million - on a Great Britain basis, with Scotland and Wales taking their proportionate shares - should be made.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that, on the understanding proposed, a saving of £35 million on housing Associations was agreed: and a further £25 million should be saved on local authority mortgage lending. This would bring the total net saving on the housing programme to £146 million.

The Cabinet -

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

General

THE PRIME MINISTER said that, as a result of the savings which had now been agreed, the total reductions stood at £952 million. Cabinet should now consider whether this total was sufficient, given the publicly known target of £1,000 million.

In discussion it was argued on the one hand that a figure such as £952 million was in some ways more convincing than a round figure of £1,000 million; and indeed, it might be regarded as evidence that the Government had taken some account of the arguments which had been put to them by the Trades Union Congress and others. Against this it was argued that for presentational reasons it was desirable to agree total reductions rather nearer to the £1,000 million target.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet would meet later that day to consider a paper by the Chancellor of the Exchequer proposing action to supplement the expenditure cuts. At the same meeting the Cabinet could take a final decision on the adequacy of the £952 million cuts so far agreed.

The Cabinet -

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

15. Agreed to resume their discussion later in the day.

Cabinet Office

21 July 1976

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CM(76) 20th Conclusions

COPY NO 84

# CABINET

CONCLUSIONS of a Meeting of the Cabinet held in the Large Ministerial Conference Room House of Commons on

WEDNESDAY 21 JULY 1976

at 5.30 pm

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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

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 Albert Booth MP
Secretary of State for Employment

The Rt Hon David Ennals MP
Secretary of State for Social Services

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

The Rt Hon Peter Shore MP
Secretary of State for the Environment

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

The Rt Hon Edmund Dell MP
Secretary of State for Trade

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

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

SECRETARIAT

Sir John Hunt
Mr G R Denman (Item 2)
Mr T F Brenchley (Item 2)
Mr W I McIndoe (Item 1)
Mr D Le B Jones (Item 3)
Mr J A Marshall (Item 3)
Mr A D Gordon-Brown (Item 1)

CONTENTS

PARLIAMENTARY AFFAIRS

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

THE LORD PRESIDENT OF THE COUNCIL said that it was not yet possible to decide whether there should be a debate on public expenditure before the Recess. It was, however, his aim to stick to next week's business, so as to ensure that the Commons stages of the Aircraft and Shipbuilding Industries Bill were completed this month; and this would mean holding any debate on public expenditure in the first week of August.

In a brief discussion it was pointed out that the Second Reading debate on the Finance Bill in the House of Lords on 27 July would take the form of a general economic debate and would inevitably cover public expenditure, before the Commons had had an opportunity to debate this subject.

The Cabinet -

Took note.

FOREIGN AFFAIRS

Meeting of the Council of Ministers (Foreign Affairs)

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that at the meeting in Brussels of the Council of Ministers (Foreign Affairs) on 19-20 July progress had been made in securing agreement among Member States to the extension of fishing limits to 200 miles although some loose ends remained to be tied up.

Meeting of the Council of Ministers (Agriculture)

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that, at the meeting of the Council of Ministers (Agriculture) in Brussels on 19-20 July, he had opposed as totally unacceptable the Commission's proposed tax on vegetable oils and fats. A discussion on proposals for a sheepmeat regime had been inconclusive.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary and the Minister of Agriculture, Fisheries and Food.

PUBLIC EXPENDITURE

Previous Reference: CM(76) 19th Conclusions, Minute 2

3. The Cabinet continued their discussion of public expenditure. The discussion and the conclusions reached are recorded separately.

Cabinet Office

22 July 1976

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COPY NO 40

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 20th Conclusions Minute 3

Wednesday 21 July 1976 at 5.30 pm

PUBLIC EXPENDITURE

Previous Reference: CM(76) 19th Conclusions Minute 2

The Cabinet resumed their discussion of public expenditure, and had before them an additional memorandum by the Chancellor of the Exchequer (CP(76) 56) about a surcharge on employers' national insurance contributions. The Secretary of State for Energy circulated at the meeting a note commenting on the proposals in CP(76) 56.

Employers' National Insurance Contribution

THE CHANCELLOR OF THE EXCHEQUER said that, as a result of their discussions so far, there was a unanimous view in Cabinet that whatever was to be done must be sufficient to attain the Government's objectives, which were to steady the pound, enable the reserves to be rebuilt, repay any drawings on the standby, and avoid the necessity of seeking further assistance from the International Monetary Fund (IMF). To do this it was necessary to reduce the prospective Public Sector Borrowing Requirement (PSBR) in 1977-78 to about £9,000 million; and after the improvement which would take place as a result of increasing economic activity, there was a gap of some £1,600 million to fill. The cuts on public expenditure which they had agreed would reduce the PSBR by £900-£1,000 million; and this left £600-£700 million to be met from increased taxation. Unless the situation improved more than at present forecast, this would mean that tax increases of about £1,000 million would be needed to bridge the final gap. If, in the statement proposed for the following day, this gap were left unclosed, there was a danger that opinion, both at home and overseas, would doubt the firmness of the Government's intention to take the required action on taxation, since it was known that any increase in direct taxation would be a contravention of the existing agreement with the Trades Union Congress (TUC) on pay, while increases in indirect

taxation would raise the Retail Price Index (RPI) to an unacceptable level. For these reasons it appeared to him that there would be great advantage in acting now, rather than leaving the tax change to be made in the 1977 Budget. If legislation could be passed, it would be possible to include in the National Insurance contribution paid by employers a surcharge of 2 percentage points. In a full year this would raise just over £1,000 million of revenue, and would reduce the PSBR by about £680 million. It would add 1 per cent to the RPI twelve months after the start of the scheme, which he envisaged for 1 January 1977. The unemployment effect, by the fourth quarter after the change, would be an addition of some 12,000. He had mentioned the possibility both to Mr Murray of the TUC and to Mr Methven of the Confederation of British Industry (CBI) in confidence; Mr Murray's view was that the TUC would probably not find such a move objectionable; but Mr Methven's reaction was very negative. It would probably make the proposal more acceptable to industry if, at the same time as the surcharge was announced, the investment relief under the Price Code could be raised to 50 per cent - a change which the TUC would probably be prepared to tolerate if it were linked with the taxation proposal. He pointed out that, compared with most other West European countries, the employers' social security contribution in the United Kingdom was very low - 8.8 per cent, compared with 20 per cent in Belgium, over 20 per cent in Germany, over 31 per cent in France and over 33 per cent in Italy. In his judgment this would be the least painful way of bridging the residual gap and attaining the PSBR target. It would not only make the public expenditure cuts more acceptable to the Government's supporters, it would also make the whole package a great deal more credible.

THE SECRETARY OF STATE FOR ENERGY said that in his view the Chancellor of the Exchequer's proposal completely transformed the context in which the Cabinet had discussed the proposals for cuts in public expenditure. The addition of the taxation proposal to raise £1,000 million would double the deflationary effect of the package, and it would lead to increased unemployment and reduced investment. The Cabinet were being asked to adopt an undiscussed strategy which would pre-empt options for the Government to the end of the present Parliament. Both the TUC and the Labour Party had been prepared for a £1,000 million package. Now they were suddenly to learn that the Government's package was twice as big - and this was to be announced only 48 hours after the publication of the highest unemployment figures since the war. The effects of the surcharge would go through into prices and would do grave damage to the Government's relations with the trade unions. There was an alternative protectionist strategy which he accepted that the Cabinet would not discuss further at the present time; but he urged his colleagues to agree either to the expenditure cuts or to the new

taxation proposal, but not to both. The two together would wipe out the value of all the lesser packages which the Government had announced to assist the employment situation over the last year. What was now proposed was the action which the Government thought they might have to take if in the end they were compelled to seek further assistance from the IMF; but there was still the danger that even this action might not make such an approach unnecessary. He therefore strongly opposed the taxation proposal.

In discussion it was argued that the new proposal created a different situation and altered the whole scale of the Cabinet's discussion. It was not clear why the Chancellor, who at an earlier stage had resisted suggestions that the package should include some taxation changes, had now decided to make the proposal in CP(76) 56. If the Cabinet had known that such a proposal might form part of the package, they might well have argued for a very different selection of public expenditure cuts, and they might well have wished to use some money for the purposes of industrial regeneration. They had not been able to consider the package as a whole, and needed more time to give thought to it. To announce the £2,000 million of proposals now before the Cabinet would create major difficulty with industry, would rupture the Government's relations with the TUC and would overturn the pay policy. If this happened, the Government would be wrecking its most precious asset. At the least the announcement should be delayed until the following week so that the Cabinet had an opportunity to reshape a more acceptable package. There was a danger that, as at present composed, the package would be interpreted as directed against the interests of industry, which would undo all the advantage which had been gained in building up a good relationship on the industrial strategy. Over one-quarter of the cuts fell on the Trade, Industry and Employment block (and they were all real and not cosmetic). The addition of an impost on industry would make nonsense of the Government's claim that the package was designed to shift resources into industry, although it might be possible to mitigate the situation by using part of the proceeds of the surcharge to put more funds into industrial support. The proposed package would be taken as a signal that the Government had chosen to go down the deflationary path, against which they had struggled for so long. It was true that some other countries were deflating; but none was deflating with a rising level of unemployment. The Chancellor hoped, by striking the right note of confidence, to be able to repay drawings on the standby and avoid recourse to the IMF; but in fact there was no prospect of achieving this, and the IMF were likely to seek to subject the United Kingdom to the discipline of a PSBR lower even than £9,000 million. For these reasons the announcement of the proposed package would damage the morale of the Government's supporters very seriously. At the least there should be associated with the announcement some act of the Government's own will, such as the imposition of import quotas, or an import surcharge, in order to ensure that the package got the required backing.

Against this it was argued that a large package was needed for confidence reasons, and that the addition of the proposed surcharge was welcome since a number of Ministers had pressed earlier for some tax element. It was however suggested that, while a package of £1,000 million public expenditure cuts might be inadequate, a surcharge of 2 per cent, producing a further £1 000 million, might go too far the other way. It had to be remembered that in addition to the 1 per cent which the surcharge would add to the RPI and the ¼ per cent which would be added by the other elements in the package there would be something more - perhaps 0.3 per cent - from the raising of the investment relief under the Price Code to 50 per cent; and this imposed on a situation in which inflation might still be in double figures to the end of 1977. If the surcharge were imposed at 1 per cent instead of 2 per cent, it would still provide a package of £1,300 million which should be adequate. A 2 per cent surcharge would impose an unacceptable burden on industry - who would also have to carry part of the cost of the accident insurance scheme which had been agreed as part of the public expenditure package. Against this, 2 per cent was favoured because of the effect this would have on overseas confidence. It was not thought that the CBI attitude towards 2 per cent would be very different from its attitude towards 1 per cent; while the trade unions were unlikely to react badly to 2 per cent, since they would see it as a tax on employers. It was, however, argued that, while 2 per cent was desirable for overseas opinion, it would be helpful to obtaining acceptance of that figure by home opinion if the package could be sweetened by the allocation of some part of the surcharge proceeds to the National Enterprise Board, and to the Scottish and Welsh Development Agencies, although this was hardly likely to be welcome to the CBI.

In continuing discussion, it was contended that the unemployment consequences of the package would greatly strain relations with the trade unions. When the Chancellor had talked to the TUC informally, he had indicated that the Government's measures might add 70,000 to the unemployed total. The effect of the public expenditure cuts was estimated to be an addition of about 60,000 to the unemployed, so that the further 12,000 which would arise from the taxation change would take the total beyond - but only just beyond - what the TUC had been told - although some scepticism was expressed about the likely accuracy of these forecasts.

In reply to those who favoured reopening the expenditure package so far agreed it was argued that time was now crucial. There was a general public expectation of a statement the following day, with the likelihood of a debate before the Recess, and it simply was not possible now to go back again over all the ground which the Government had covered in the last four meetings on this subject. If the total of the package represented some degree of over-insurance, that was no bad thing given the inherent uncertainty of the situation.

On the question of import restrictions, it was recognised that the proposed package would be more acceptable to the Labour Party if something could be said about import deposits or other import restrictions; and in terms of mechanics it would be possible to impose import deposits by means of a Ways and Means Resolution, relying upon the Provisional Collection of Taxes Act until the substantive legislation could be passed. However, to seek to introduce such deposits without prior consultation with both the European Community and the Commonwealth would be fatal; and such consultations could not be carried out in less than a week. It might be possible to announce that the Government proposed to take an initiative with the TUC and CBI to consider the possibility of imposing import controls on some industries; but the danger of such a course was that an advance announcement of this kind could lead to uncertainty and to forestalling action on a massive scale.

THE PRIME MINISTER, summing up this part of the discussion, said that there was no doubt that the proposals as a whole would create a great deal of opposition. The question was: would they strain relations with the Trades Union Congress to breaking point? He thought they would not, although they would certainly strain relations very heavily. The majority of Ministers appeared to agree that, if action were to be taken, it should be on a large enough scale to avoid any likelihood of further trouble in the autumn, and there was therefore a balance of opinion in favour of imposing the surcharge on employers' national insurance contributions at 2 per cent. It was true that this would have a deflationary effect, but it would take some considerable time to work its way through the economy and the hope was that by the time it did unemployment would in fact be moving down. If, after taking the action on which they were now agreed, the Government were unable to repay drawings from the standby and were thus compelled, by their understanding with the countries who had advanced the standby, to go to the IMF for further assistance, it should be possible to resist proposals for any further deflationary action. In his view the proposals went to the limit which the Government should be prepared to tolerate in this respect.

The Cabinet -

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

2. Authorised the Chancellor of the Exchequer in his statement the following day, to announce the imposition from 1 January 1977 of a surcharge of 2 per cent on employers' national insurance contributions.

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THE PRIME MINISTER, summing up a brief discussion, said that at their meeting earlier in the day, the Cabinet had agreed total public expenditure savings of £952 million. It now appeared that a further £75 million of saving would arise on debt interest as a result of the reduction of £1,600 million in the PSBR which the Cabinet, by its public expenditure and taxation decisions, had brought about. Debt interest was outside the public expenditure programmes but was part of the public expenditure total, and it was therefore quite legitimate to count the real saving this £75 million represented. The total of public expenditure savings would thus rise to £1,027 million and no further cuts were necessary. On the question of additional funds for industrial support, no figure could be given in the statement to be made the following day. However, it should be made clear that the intention was that a significant sum should be available for more selective support for industry, in particular through the National Enterprise Board and the Scottish and Welsh Development Agencies. The figures would then not need to be given until the publication of the annual White Paper on Public Expenditure later in the year. Officials should now proceed with the preparation of the figures for 1978-79 and later years in the light of the decisions on 1977-78, and Cabinet would consider the expenditure in those years after the Recess.

The Cabinet -

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

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THE PRIME MINISTER said that a provisional draft of the following day's statement had been circulated, but in his view it would need a good deal of redrafting. This would be done in the course of the evening and a further version would be circulated to all members of Cabinet the following morning. He proposed to see all junior Ministers at noon the following day in order to inform them of the contents of the package; and he would be speaking on the telephone to President Ford, Chancellor Schmidt and possibly also President Giscard. The Chancellor of the Exchequer would make the statement in the House the following day, and he would himself consider whether he should make a Ministerial broadcast in the evening. It seemed likely that the Government would be pressed to have a debate before the House rose for the Recess; but it was not possible at present to see when this could most easily be accommodated. If it were to take place in the week beginning 26 July, it would mean that essential legislation requiring severe whipping would have to be moved into the week beginning 2 August.

On the other hand, if the debate on the package took place in the week of 2 August it would be important for the Government to be able to muster full support. It would be sensible to avoid entering into any commitments about this in the House of Commons the following afternoon, and, if the Opposition pressed the point, to say that the Government would take note of it and discuss it through the usual channels.

The Cabinet -

4. Took note, with approval, of the Prime Minister's statement.

Cabinet Office

22 July 1976

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CM(76) 21st
Conclusions

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# CABINET

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

THURSDAY 29 JULY 1976

at 10.00 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot 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 Foreign and Commonwealth Affairs

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

The Rt Hon Peter Shore MP
Secretary of State for the Environment

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon David Ennals MP
Secretary of State for Social Services

The Rt Hon Lord Shepherd
Lord Privy Seal

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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

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 Edmund Dell MP
Secretary of State for Trade

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

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury
(Item 1)

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Items 3 and 4)

SECRETARIAT

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| Sir John Hunt | |
| Sir John Garlick | (Item 5) |
| Mr G R Denman | (Items 2 and 6) |
| Mr T F Brenchley | (Item 2) |
| Mr W I McIndoe | (Item 1) |
| Mr J A Marshall | (Items 3 and 4) |
| Mr M E Quinlan | (Item 5) |
| Mr A D Gordon-Brown | (Item 1) |
| Mr A K H Atkinson | (Item 6) |
| Mr C J Farrow | (Items 3 and 4) |

CONTENTS

PARLIAMENTARY AFFAIRS

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

Debate on Public Expenditure

THE LORD PRESIDENT OF THE COUNCIL said that the arrangements for the debate on public expenditure proposed for Monday, 2 August, had not yet been finally settled. He had given no commitment to arrange a debate before the Recess, and had undertaken only to discuss the matter through the usual channels, but a debate seemed difficult to avoid and the Opposition could be expected to protest vigorously if no debate was announced for next week. It had been proposed to the Opposition that 2 August should be a Supply Day and that they should put down the motion for debate; a united vote could be expected on the Government side against any motion put down by the Opposition. If the Opposition declined this offer, the best chance of winning the vote at the end of the debate would be secured by holding the debate on a motion for the adjournment.

THE PRIME MINISTER, summing up a brief discussion, said that neither the Government nor any of the Government's supporters were anxious to have a debate on public expenditure now. There was accordingly no need to make Government time available for such a debate before the Recess, notwithstanding the risk that the Government would then be criticised for avoiding a debate; there might also be criticism if a debate were to be held on a motion for the adjournment. It should therefore be explained to the Opposition that, if they did not wish to take up the offer of a Supply Day in order to debate public expenditure on a motion of their own choosing, the Government did not propose to provide time for this purpose next week, but would arrange a debate in due course following the publication of the Public Expenditure White Paper in the autumn.

The Cabinet -

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

Police Bill

THE HOME SECRETARY said that it was most desirable that Commons consideration of Lords amendments to the Police Bill should be taken in the House the following week, so that the Bill could receive the Royal Assent before the Recess. A number of police officers, including the Commissioner of Police of the Metropolis, had voiced criticism of the Bill, and it was important quickly to reach the position where these officers could be told that since the Bill had become law they should desist from further public criticism of it. Very little time would be required in the House and no votes would be involved.

THE LORD PRESIDENT OF THE COUNCIL said that he had considered whether Commons consideration of Lords amendments to this Bill could be fitted in next week but this had not at first sight seemed possible. He would, however, consider again whether there was any way of fitting this in.

The Cabinet -

2. Took note.

Child Benefit

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the joint working group on Child Benefit, consisting of representatives of the Government, the Parliamentary Labour Party, the National Executive Committee and the Trades Union Congress, would be meeting that afternoon to consider a draft report. They seemed likely to agree on recommendations that the full Child Benefit scheme should be phased in by 1979 without necessarily involving additional cost to the Exchequer and that Child Benefit should be paid without tax and clawback from April 1977. He would like, during the debate on the Child Benefit and Social Security (Fixing and Adjustment of Rates) Regulations on Friday 30 July, to say that the Government accepted at least the first of these recommendations.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet had reached their earlier decision on the introduction of Child Benefit after prolonged discussion and they wished to have proper time to consider the full implications of the new recommendations, if they were made, including the implications for student support arrangements. The Secretary of State for Social Services should therefore reserve the Government's position during the debate on the basis that the working group's report would have reached him only the previous day.

The Cabinet -

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

Aircraft and Shipbuilding Industries Bill

THE SECRETARY OF STATE FOR INDUSTRY said that a number of Government backbenchers had tabled a last-minute amendment for the Report Stage of the Aircraft and Shipbuilding Industries Bill to restrict the rights to consultation on industrial democracy, corporate plans, establishment of machinery for negotiation of terms and conditions, and other matters, to unions affiliated to the

Confederation of Shipbuilding and Engineering Unions (CSEU) instead of to any independent union recognised under the Employment Protection Act. Throughout all the proceedings on the Bill hitherto the Government had firmly adhered to the position that this Bill should be kept in line with the provisions on recognition in the Employment Protection Act, and the Bill accordingly defined a "relevant trade union" for the purposes of the provisions on consultation as one recognised as independent under that Act. Certifying Officers had, however, been certifying as independent unions staff associations and other bodies not affiliated to the Trade Unions Congress (TUC) or the CSEU, contrary to the intentions of the Government and the wishes of all genuine trade unions. The Government would have to indicate later in the day whether they accepted the amendment, and he had discussed the position with the Secretary of State for Employment, who thought that it would be necessary to amend the Employment Protection Act so as to give effect to the Government's intentions. The Secretary of State for Employment was also in favour of taking corrective action now in the aircraft and shipbuilding industries, by accepting the amendment. He himself, however, did not think it would be wise to alter the existing arrangements in the context of a Bill applying to only two industries. The atmosphere surrounding the Bill was already difficult, and such an amendment - which would certainly be removed by the House of Lords - would endanger the Bill's passage through the Lords. He would prefer to examine this problem in a calm atmosphere and find a general solution to it.

In discussion it was pointed out that finding a general solution would take some time, and the Government would be likely to incur criticism, especially from the trade unions in the aircraft and shipbuilding industries, for failing to take the opportunity presented by the amendment to deal with the matter now in these two industries. An alternative to the amendment would be that the Boards of the two industries should be free to decide for themselves which were the relevant unions for the purposes of the provisions on consultations, or that they should consult the TUC; it was, however, now too late to put down any new amendment to the Bill in the Commons. Without amendment of the Bill, it would be difficult for the two Boards to avoid consulting bodies which were recognised under the Employment Protection Act but were not genuine trade unions, and which would seek to exploit this situation to their own advantage. There was, however, general recognition that issues of great delicacy and difficulty were involved, which affected relationships between the TUC and some individual unions. These problems were particularly sensitive in a high technology industry like the aircraft industry, where some white-collar workers were genuine trade unionists and others were strong anti-unionists.

THE PRIME MINISTER, summing up the discussion, said that the issue of trade union recognition raised difficult and technical problems and the general view of the Cabinet was that the Government should make no move in this field without having first been able to give full consideration to these problems. The Secretaries of State for Industry and for Employment should accordingly explain to the supporters of the backbench amendment that the Government were studying the general problem of recognition, which had developed unexpectedly following the enactment of the Employment Protection Act, as a matter of urgency and would be bringing forward their own proposals for a general solution. It was reasonable to expect proponents of the amendment to pay regard to the difficulty, particularly the parliamentary difficulty, of attempting to tackle this problem piecemeal in the aircraft and shipbuilding industries before the Government had been able to reach conclusions on the appropriate general solution. The Secretary of State for Industry should also advise the two organising committees that they should not meanwhile become involved in consultations with unions other than those long established and recognised unions which were members of the CSEU, and could explain to the House on the Third Reading of the Bill that this advice was being giver. The Secretary of State for Employment should explain the Government's attitude to the trade union group in the House and to the TUC.

The Cabinet -

4. Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretaries of State for Industry and for Employment to proceed accordingly.

FOREIGN AFFAIRS

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Uganda

Previous Reference: CM(76) 15th Conclusions, Minute 2.

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that following the breaking off of diplomatic relations with the Government of Uganda, the French Embassy in Kampala had assumed responsibility for the protection of British interests in the country. The withdrawal of the Acting High Commissioner, Mr Gibbs, had been effected successfully. So far the reaction of President Amin had been muted. Commonwealth Governments who had been informed had been generally sympathetic.

The Cabinet -

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

CIVIL SERVICE MANPOWER

Previous Reference: CM(76) 14th Conclusions, Minute 4

3. The Cabinet resumed their discussion of a memorandum by the Lord Privy Seal (CP(76) 39) about cutting the cost of the Civil Service; and also had before them a memorandum by the Chancellor of the Exchequer (CP(76) 59) about Vehicle Excise Duty.

THE PRIME MINISTER said that at their meeting on 8 July (CM(76) 14th *Conclusions, Minute* 4) the Cabinet had agreed to savings totalling just under £95 million. The majority view had been in favour of abolishing the Vehicle Excise Duty (VED), but they had left the question of the timing of this change on one side pending the further views of the Chancellor of the Exchequer. What the Cabinet now had to do was to take a view on VED and consider the bridging of the remaining gap to the figure of £140 million. He had, along with the Lord Privy Seal, seen the National Staff Side earlier in the week and had suggested to them that there would be advantage if the agreed savings of £95 million could be announced, making it clear at the same time that the door was not closed to further savings. The Lord Privy Seal's Private Secretary had circulated a letter the previous day to all members of the Cabinet enclosing a draft of such a statement. His own personal view was that they should agree to a statement of this kind, and he suggested that in the first place their discussion might be focussed upon the draft.

THE LORD PRIVY SEAL said that the draft statement was somewhat stronger than was perhaps indicated by the note of the meeting with the National Staff Side. The Staff Side were a very responsible body, and they recognised that the Government ran a certain risk in announcing cuts of £95 million having spent five months trying to find £140 million. He reminded the Cabinet that they were very large employers, and that the uncertainty created through the absence of any announcement had created a great deal of unrest throughout the Civil Service. The National Staff Side were worried over the limited degree of consultation which had been possible - they had been given the figures, but not the details of where within Departments the cuts would fall - and an announcement on the lines suggested would go far to hold the position. The Government remained committed to finding the balance, but would have more time to consider this. The terms of the draft statement for Cabinet had been agreed with the National Staff Side.

In discussion it was argued strongly that it would be difficult to obtain the co-operation of departmental Staff Sides to the agreed cuts of £95 million if they thought there were more to come. In any case, there was no reason to think that the balance of the cuts would be any easier to find in the autumn than they were now. It was therefore suggested that the Government should accept that £95 million, or £95 million plus the saving from the abolition of VED, if that were agreed, should be the end of the exercise. Against this it was argued that the Government could not formally forgo its £140 million objective, but that there was no need to agonise over it unduly.

The Cabinet then considered the text of the draft statement, and a number of excisions and amendments were agreed. It was also agreed that, while this need not be mentioned in the statement, the figure of £7 million against the Foreign and Commonwealth Office was an average assessment pending the outcome of the Review of Overseas Representation.

In discussion of VED, it was argued that the situation at Swansea was now critical, and that an early decision either to abolish or to retain the tax was essential if industrial action were to be avoided. On the other hand it would be wrong for Cabinet to be hurried into an important taxation decision and it was possible that a decision to abolish VED would cause even more unrest than the lack of a decision. Nevertheless, it was argued that a decision was needed and that without the savings it would provide - £12 million in staff costs and £22 million from the £2 registration fee - there was no prospect of ever bridging the gap between £95 million and £140 million.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Lord Privy Seal should arrange for a statement to be made that day, by written answer to an arranged Parliamentary Question. A revised text had now been agreed in their discussion. The general view of Cabinet was that no decision should be taken on Vehicle Excise Duty for the time being. The announcement of a decision to abolish it would cause great difficulties for the motor car industry, thus exacerbating further the adverse reaction of the Confederation of British Industries (CBI) to the addition to the employers' national insurance contribution. The Cabinet could consider VED further at a later date. In the meantime all Ministers should continue to consider the possibility of any further reductions which might bridge the present gap between achievement and target.

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 a statement to be made that day, by way of a written answer to an arranged Parliamentary Question, in the terms which they had agreed in the course of their discussion.

UNEMPLOYMENT AMONG YOUNG PEOPLE

Previous Reference: CM(76) 15th Conclusions, Minute 4

4. The Cabinet considered memoranda by the Secretary of State for Prices and Consumer Protection and Paymaster General (CP(76) 58), the Secretary of State for Employment (CP(76) 60) and the Chancellor of the Exchequer (CP(76) 62) on measures which might be taken to reduce unemployment among young people. They also had before them a note by the Chancellor of the Exchequer (CP(76) 64) to which was attached a report on the state of the contingency reserve.

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION AND PAYMASTER GENERAL said that the Ministerial Group on Unemployment among Young People had agreed that the Government should announce its support for the introduction of work experience courses. The scheme proposed would start in September and provide places for up to 30,000 young people at a gross cost of £19 million. In the first instance applications for the scheme would have to be received by the end of March 1977 but the Group considered that this should not be a final decision on the end date, which should be kept under review. The Group could not reach agreement on the proposal for a job swap scheme. They favoured the idea in principle but were conscious that it involved very considerable practical problems. Of these the most serious were the high cost and the impossibility of enforcing or even policing the condition that anybody retiring under the scheme should be replaced by the recruitment of somebody from the unemployment register. The majority of the Committee felt that if the problems could be solved the scheme should be looked at very seriously; but the Chief Secretary, Treasury was more strongly opposed.

THE SECRETARY OF STATE FOR EMPLOYMENT said that if the Government were to continue to enjoy the support of the trade union movement for their pay policy and for the decision to reduce public expenditure it would be necessary for them to demonstrate that they were taking action to deal with the unemployment problem. The Trades Union Congress (TUC) would be meeting at a time when unemployment might be as high as 1½ million and rising at a rate of 40,000 a month. The new Social Contract called for more action to be taken. The package of measures to which they were committed would therefore have to be both substantial and imaginative and should not be confined to the young. The figure of £50 million which had been suggested by the Treasury was totally inadequate. The job swap scheme held out a prospect of releasing 90-100,000 jobs to those who were unemployed. It would have its main effect in the winter when unemployment was expected to be at its peak and when the Temporary Employment Subsidy (TES) would be coming to an end. The scheme had been criticised because of uncertainty about its cost, but to suggest that it would be taken up by 80 per cent of those eligible, twice the figure assumed in the estimates, was absurd. Only 60 per cent of employees now retired when they

reached full retirement age. The question was rather whether the proposed allowance at £23 was not so small that there would be a smaller take up than the 40 per cent allowed for in his figures. Fears of evasion were also grossly exaggerated. The scheme already allowed for the non-replacement of 10 per cent of those receiving the allowance, which was twice his own expectation. He had consulted the TUC informally about the proposal. They would welcome it though they had doubts whether the proposed allowance was large enough and had mixed feelings on whether those who were unemployed should be eligible. On this point he thought it unwise to take a decision without further consultation. He strongly recommended however that the Government should announce that the scheme was being studied with a view to its introduction at the end of the year.

In discussion there was general agreement that the Government should announce a significant package. Unemployment was a very serious problem which needed to be attacked by micro-economic measures. There were however differing views on whether the proposed job swap scheme was an effective and satisfactory means of dealing with the problem. On the one hand it was argued that the estimated cost of £118 million was inevitably very uncertain. The scheme would require legislation and the Bill would be open to amendments in Parliament to extend its provisions which the Government might well be unable to resist. All the arguments in favour of the scheme applied equally to a general reduction in the retirement age, yet this could not be contemplated since the cost would be enormous. There was no possibility that the replacement requirement could be enforced. 800,000 people changed their job every month - 25,000 of them in the age group which this scheme would cover - and it would be impossible to establish in this continuous turnover whether a particular retirement had been offset by a recruitment. Since the scheme was only temporary there could be no justification for recruiting staff to make checks. The payment of an allowance free of tax was a dangerous precedent and could have repercussions. There would also be considerable difficulty in preventing the recipients of the allowance from also claiming Supplementary or other Benefits. There was already public concern about the degree of abuse of the social security system and it would be most unwise to add a new measure which was particularly open to abuse. The impression which the scheme created would be particularly bad if it were open to the unemployed where there would be no question of a new job opportunity being created. There was also danger of criticism by pensioners who would see no justification for those who retired early being paid more than those who had worked till normal retiring age.

On the other hand it was argued strongly that it was imperative that the package should contain more substantial measures than those which had been agreed previously. While it might not be possible to ensure the strict application of the retirement condition in particular cases, the removal of a large number of people from the labour force was bound to increase the employment prospects of everybody else. Industry had now reduced its manning to a low level and a large amount of overtime was being worked to secure the present output from the existing labour force. It was therefore improbable that the scheme could result in substantial retirement without replacement. It was very likely that the large majority of those taking advantage of the scheme would be women, for whom the allowance would compare more favourably with earnings, whereas the unemployment problem was more acute amongst men. Far from adding to the pressures for early retirement the scheme represented a cheap way of satisfying those pressures to a limited degree. The legislation to give effect to this scheme would be popular and it was most unlikely that MP's would put it at risk by seeking to introduce unreasonable amendments. At the very least, the Government should announce that the scheme was being carefully examined.

In further discussion it was pointed out that the Social Services Committee would be considering later that day a proposal to extend the provision of educational maintenance allowances for those staying at school beyond the age of 16. This scheme could be introduced by an amendment to the Education Bill at present in the House of Lords. If it were endorsed by Social Services Committee it would be a very suitable measure to include in an early statement.

As an alternative to the job swap scheme it was suggested that additional finance should be provided for the job creation programme, and for the work experience scheme. It was however argued that it was doubtful whether these schemes could absorb substantial additional funds in the short term. The work experience scheme in particular was limited by the extent to which employers would make places available. It was also suggested that there would be advantage in extending the life of the Temporary Employment Subsidy beyond the end of 1976. This scheme was already well understood and had been effective. Other measures which should also be considered were the removal of some of the present limitations on the job creation scheme - its terminal date, the exclusion of any activity which would add to profits and the provisions which prevented unemployed teachers being used to give services in deprived areas.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the proposed statement must include sufficient to demonstrate the very serious concern which the Government felt for the unemployment position. There was general

agreement that the work experience scheme should be included. So far as the job swap scheme was concerned there was a strong weight of opinion within the Cabinet which saw objection to the present proposals. On the other hand the arguments in favour of some measure of this sort had a good deal of force. The best course might be to indicate that the Government were seriously considering proposals of this kind in the hope that they could be introduced for an experimental period of six months in the Assisted Areas only. To limit the scheme in this way would reduce the scale of risk. The statement might also indicate that the Government were reviewing the operation of the Temporary Employment Subsidy and would be discussing with the TUC the possibility of its extension in time. It might also say that the job creation scheme was also being reviewed with a view to the possible widening of its scope. In order to help with the presentation it would be necessary to distinguish clearly between the items which were firmly decided, which could be costed and in respect of which estimates of the effect on employment could be made, and those items which were still under consideration. It would be preferable for this statement to be made on 3 August, after the debate on the expenditure cuts. The Secretary of State for Employment should prepare a draft and circulate it for approval by the Cabinet. If the Social Services Committee endorsed the proposal for educational maintenance allowances, that could also be included in the statement.

The Cabinet -

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

DEVOLUTION TO SCOTLAND AND WALES

Previous Reference: CM(76) 7th Conclusions, Minute 3

5. The Cabinet considered a Note by the Lord President of the Council (CP(76) 63) proposing the terms of a supplementary White Paper on the Government's plans for devolution to Scotland and Wales.

THE LORD PRESIDENT OF THE COUNCIL said that the Government were committed to a statement before the Recess on remaining additions and changes to the proposals in the November White Paper Cmnd. 6348. In view of the range and complexity of the matters to be covered a White Paper was the appropriate vehicle. The decisions covered by the draft before the Cabinet, and the terms in which they were expressed, had been endorsed by the Ministerial Committee on Devolution Strategy. In the round, they would represent a useful improvement in the robustness and political acceptability of the Government's devolution plans. He proposed that the statement should be published on 3 August; on the same day there would be a shorter oral statement in the House of Commons the terms of which he would circulate to Departments in advance.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet approved the statement attached to CP(76) 63, subject to any minor drafting amendments which might be notified to the Lord President during the course of the day, and to urgent discussion between the Secretary of State for Trade and the Secretary of State for Northern Ireland on whether any amendment in the sections on tourism was appropriate to allow for possible future changes in respect of Northern Ireland.

The Committee -

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

DIRECT ELECTIONS TO THE EUROPEAN ASSEMBLY

Previous Reference: CM(76) 15th Conclusions, Minute 2

6. The Cabinet had before them a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 61) on direct elections to the European Assembly.

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that the European Council in Brussels on 12-13 July had reached agreement on direct elections, in particular on the size and composition of the European Assembly, which was subject to a derogation for the United Kingdom to cover the possibility that we might not be able to meet the date envisaged of May/June 1978 and was within the guidelines agreed by Cabinet on 8 July. The European Council had asked the Council of Ministers (Foreign Affairs) to settle all the outstanding questions by the end of July. This had not proved possible since at the Council (Foreign Affairs) on 19-20 July the French had objected to a derogation specifically for the United Kingdom and had insisted on all Member States having the same degree of commitment about the date of the first elections. As a result a compromise proposal had been worked out which removed any commitment to specific dates for the first direct elections, replaced this by a best endeavours clause in relation to May/June 1978 and laid down that the actual date should be decided by the Council of Ministers (Foreign Affairs) acting unanimously. The Minister of State for Foreign and Commonwealth Affairs had said that he was not able to agree to this compromise before the matter had been discussed by Cabinet. The Foreign and Commonwealth Secretary suggested that we should now accept this compromise proposal as fully consistent with the decisions of Cabinet on 8 July. It was in practice unlikely that at the end of the day we would turn out to be the laggards. But if necessary it would be better to be isolated in a year's time when progress had been made on the revision of the Common Fisheries Policy than in September of this year when the Council (Foreign Affairs) would return to the direct elections issue.

In discussion attention was drawn to the difficulties which would be involved by the heavy burden of devolution legislation next session. It would be unfortunate if having introduced a Direct Elections Bill early next year it then turned out that direct elections would not in the event take place until 1979. And it was uncertain what should be said in relation to this in The Queen's Speech. Moreover it was not clear whether the agreement in the form now envisaged - a decision under Article 138 of the Treaty of Rome - would be open to the same processes of Parliamentary approval as the Convention originally envisaged. It was further argued that feeling in the National Executive Committee was clearly running against direct elections. And while it was true that the compromise proposal would enable us to block direct elections throughout the Community if in a year or so's time we were unable to meet this timetable, the pressures on us then to come into line particularly in relation to the other objectives we would be pursuing in the Community would be all the greater.

On the other hand it was argued that from the point of view of making progress on the revisions we needed to the Common Fisheries Policy there was much to be said for deferring any possible isolation on direct elections from the next meeting of the Council of Ministers (Foreign Affairs) in September this year until much later. In some respects the new compromise formula gave us a more effective let out than the previous derogation limited to the United Kingdom alone. Thus our position was fully safeguarded. Our proposal for the agreement to be embodied in a Convention had met with no support but we had been able to secure a number of changes in the text which brought it nearer a Convention. What was said in The Queen's Speech and our tactics in relation to legislation next year could be fully considered later. But in the meantime we should continue to make it clear in Brussels that, while we would use our best endeavours it was doubtful whether we could complete our preparations to meet the date of May/June 1978.

THE PRIME MINISTER, summing up the discussion, said that the compromise proposal now being considered had the disadvantage that being different from the derogation specifically for the United Kingdom it might awaken suspicion. But the general view of the Cabinet was that the new formula in fact strengthened our position. It should be clearly recognised that if we were isolated at the end of the day the pressure on us to fall into line would be considerable. Equally other Member States must in that event recognise that we had done our best to get legislation through but had not been successful. It would be necessary to ensure that the arrangements for Parliamentary approval of the instrument to be agreed would be consistent with the assurances which he as Foreign and Commonwealth Secretary had given the House on 29 March. Subject to this latter point the Cabinet agreed that we should accept the agreement as proposed by the Foreign and Commonwealth Secretary.

The Cabinet -

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

Cabinet Office

29 July 1976

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CM(76) 22nd
Conclusions

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# CABINET

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

TUESDAY 3 AUGUST 1976

at 10.30 am

## PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

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

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

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

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 Peter Shore MP
Secretary of State for the Environment

The Rt Hon Roy Mason MP
Secretary of State for Defence

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

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

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

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon David Ennals MP
Secretary of State for Social Services

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 John Silkin MP
Minister for Planning and Local Government

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Items 3 and 4)

SECRETARIAT

Sir John Hunt
Mr T F Brenchley (Items 1 and 2)
Mr A D Gordon-Brown (Items 1 and 4)
Mr C J Farrow (Items 3 and 4)

CONTENTS

PARLIAMENTARY AFFAIRS

1. The Cabinet were informed of the business to be taken in the House of Commons during the week beginning 11 October.

In discussion it was pointed out that British interests could be damaged by the fact that, owing to the exigencies of Parliamentary business and the difficulties over pairing, it was not always possible to maintain continuity of Ministerial representation at meetings of Councils of the European Economic Community (EEC). There might be particular difficulty during the British Presidency of the EEC, when British Ministers would be unable to leave EEC meetings at which they were in the chair, whatever the Parliamentary situation.

THE PRIME MINISTER, summing up a brief discussion, said that an attempt was being made to reach a comprehensive agreement on these matters with the Opposition, which would cover the absences of Ministers on Government business and of Members too ill to attend the House. The Select Committee set up to review the practice and procedure of the House had started work, but would not reach any conclusions in time for next Session. Before any Minister gave evidence to the Select Committee, it would be necessary for Ministers collectively to consider what views the Government should express to the Committee.

The Cabinet -

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

OREIGN AFFAIRS
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Uganda

Previous Reference: CM(76) 21st Conclusions, Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that we had no conclusive information about the treatment of the two British subjects, Mr Clegg and Mr Tully, arrested in Uganda. What was clear was that their arrest had taken place on the day before our breach of diplomatic relations with Uganda and that one of the two British subjects involved had shown serious lack of judgment in returning that day to Uganda from Kenya, despite the High Commission's warnings to British subjects.

South Africa

THE FOREIGN AND COMMONWEALTH SECRETARY said that consular access was being obtained to the pregnant British woman, Mrs Rabkin, detained in South Africa under the Terrorism Act. Official representations had been made on her behalf.

The Cabinet -

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

Nuclear Test

THE PRIME MINISTER said that he wished the Cabinet to know that during the Recess we should be carrying out an underground nuclear device test on the American test site in Nevada. There would be no public announcement, but the Secretary of State for Defence planned to issue a short statement immediately after the test had taken place. In 1974 there had been some criticism of the fact that a British nuclear test had been carried out without prior information to the Cabinet. Subsequently it had of course been decided in the Defence Review that our nuclear deterrent should be retained, and this further test was needed to maintain its effectiveness. It was over two years since a British test had been conducted, in contrast to the very frequent testing of nuclear devices by the United States and the Soviet Union. They were however testing new techniques for a new generation of weapons, whereas we had made no decision to embark on nuclear weapons of a new generation. The test now planned was to improve the effectiveness of our existing system.

The Cabinet -

2. Took note.

PUBLIC EXPENDITURE

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Follow Up to Recent Decisions

Previous Reference: CM(76) 20th Conclusions, Minute 3

3. THE PRIME MINISTER said that during the seven Cabinet meetings on public expenditure reductions in 1977-78 a number of ideas were put forward by Ministers on which it was not possible to take immediate decisions but which it was felt ought to be followed up in an orderly way. These were:-

i. To provide assistance to poorer energy producers.

ii. To consider new ways of funding our short term overseas debt.

iii. To change the presentation of the Public Sector Borrowing Requirement by excluding the borrowing on account of the nationalised industries.

iv. To consider reducing our presence in Cyprus.

v. To consider legislation to cut housing subsidies at the same time as reducing tax relief on mortgage interest.

vi. To channel more industrial support through the National Enterprise Board.

vii. To look at the cost to the public sector of educating children in the private sector.

viii. To get a firmer grip on local authority manpower.

ix. To get on preparing the public expenditure figures for 1978-79 and subsequent years, with a view to Cabinet considering them after the Recess.

The first of these had already been settled, and he knew that a number of the others were already under active consideration. He wished his colleagues to know however that he had now been through the full list to decide how best they could be handled and that the Secretary of the Cabinet would be getting in touch with the Departments concerned.

THE PRIME MINISTER, summing up a brief discussion, said that there was general agreement that those matters, which had not been settled should now be followed up. It had also been suggested that, while there could be no question of interfering with the production of the regular statistical indices to suit the Government's convenience, more attention might be paid to producing additional statistics which would present the Government's policies favourably in an international context. To some extent the remedy lay with

Departments since the statistical service was decentralised to them. He would however consider whether there were any further steps which could usefully be taken from the centre.

The Cabinet -

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

Contingency Reserve 1976-77

Previous Reference: CM(76) 21st Conclusions, Minute 4

The Cabinet considered a note by the Chancellor of the Exchequer (CP(76) 64) to which was attached a memorandum by the Chief Secretary, Treasury, on the state of the contingency reserve.

THE CHIEF SECRETARY, TREASURY, said that his memorandum revealed the serious pressure on the contingency reserve for 1976-77. Already approved claims absorbed £411 million of the total provision of £825 million. He recommended that Cabinet should also approve £74 million for the excess expenditure on the English housing programme. This excess, now estimated at £208 million, arose on council house building and on housing subsidies which were open-ended programmes. The Secretary of State for the Environment had agreed to make other reductions accounting for all but the £74 million of the excess and it was this balance which he now recommended should be a charge on the reserve. Deduction of this provision and also of £3 million for three small items on other programmes which he also recommended for acceptance left a balance of £337 million for dealing with all further claims. From this balance would need to be found any provision for overspend on other local authority expenditure which the Cabinet would be discussing next, a wide variety of other claims totalling £280 million, and the cost of the job creation programme which was to be announced that day. In total these claims greatly exceeded the outstanding balance of the reserve. He did not ask the Cabinet to take positive action at present: they should however take note of the limited resources available in the reserve for further commitments, take account of this in their decisions on any specific proposals requiring immediate decision and consider very carefully the possibility of absorbing or offsetting the claims annexed to his memorandum. He also wished to draw attention to the fact that the contingency reserve for 1977-78 was only £700 million, out of which provision was already required for the job provision programme to be announced that day.

In discussion it was pointed out that when reductions in public expenditure were required these normally fell with disproportionate effect on capital programmes. It was also argued that the need for reductions often arose because proposals for additional expenditure were approved individually without full regard for priorities. Attention was also drawn to the fact that, although it was clearly laid down that all new proposals should include an estimate of their man-power consequences inadequate consideration was sometimes given to these estimates. It was, however, pointed out that the large majority of the outstanding claims against the reserve were the consequence of decisions taken some time previously.

THE PRIME MINISTER, summing up this part of the discussion, said that the paper showed the value of the new procedures which the Cabinet had adopted for the regular monitoring of claims against the contingency reserve and also illustrated the way in which expenditure had risen above budgets in previous years. The Cabinet noted the excess of claims over the balance of contingency reserve and invited all Ministers responsible for claims listed in the annex to CP(76) 64 to consider carefully whether they could absorb or offset the amounts within their existing budgets.

The Cabinet -

2. Took note, with approval, of the Prime Minister's summing up of this part of their discussion and invited all Ministers to be guided accordingly.

Local Authority Expenditure

Previous Reference: CM(76) 6th Conclusions, Minute 3

The Cabinet then considered a memorandum by the Secretary of State for the Environment (CP(76) 65) setting out proposals for dealing with expected excess local authority current expenditure.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that at the beginning of the financial year his Department had discovered, from returns from local authorities, that the total of their expenditure was likely to exceed the provision in Cmnd 6393 by £350-£450 million. Following discussion in the Cabinet on 20 May he had asked the authorities to produce revised estimates by 16 July. This further return had shown a reduction in the estimated overspend to £250 million. In the time available before his next meeting with the Local Authority Associations he had not been able to agree with his colleagues or to consult the Cabinet on proposals for dealing with the whole of this overspend. His colleagues had, however, agreed that there could be no departure from the Cmnd 6393 figures for 1976-77

and 1977-78 taken together, and that any overspend in the first year would have to be made up for by an appropriate cut in the second year. This action in itself would involve the most painful contraction in the history of local government. It would, for the first time, reverse a long-term upward trend in the local authorities' real expenditure. In the five years ending with the current financial year this expenditure had risen by 8, 9, 10, 5 and 2½ per cent respectively. In 1977-78 it would fall by 2½ per cent. It was his view, however, that a greater reduction in the overspend should be achieved in the current year. He had asked the Associations to consider what action they would take and had warned them that he would announce his response within seven to ten days. It was likely that as a consequence of this warning the authorities would reduce capital expenditure by some £30-£40 million. The only option remaining to the Government to bring about a further reduction was to cut back the Rate Support Grant Increase Order due to be made in the autumn. This was budgeted at £480 million and he proposed that this figure should be reduced by up to £50 million. This action would send a shock wave throughout local government and would demonstrate very clearly the Government's determination to keep the expenditure within the provision which had been previously agreed. He did not think that it would be possible to make any larger reduction in the Order without destroying co-operation between local authorities and central Government. He had to emphasise that there was no overspend whatever in central Government finance to local authorities: the overspend was in the total of local authority expenditure, which was not subject to direct control by the central Government. It was possible to do no more than to cajole and to encourage. It was likely that the action which he proposed on the Increase Order would be presented as a breach of the Government undertaking: he felt that this would not lead to a breakdown in co-operation but any more severe action was likely to be counter-productive.

In discussion it was argued that it would be unwise to make any reduction in the Increase Order. The decisions already taken in relation to 1977-78 were very stern in that they both maintained the decision that there should be no growth and also required the current year overspend to be cut back. There was a danger that the severe consequences which this would have for local authorities had been underestimated, and the Government would be lucky to escape without severe political problems. The figure of £50 million which had been proposed was arbitrary and punitive. It would fall indiscriminately on those authorities which had observed the Government's requirements and those which had not, and would open the Government to charges of defaulting on its promises. There was all the difference in the world between making clear that the Government's future actions would be tough and failing to live up to agreements previously reached. On the

other hand it was argued that the local authorities were in no position to complain because they themselves were not achieving the agreed standstill in expenditure. There was a danger of very serious overseas reaction if it were made public that the local authorities were overspending by as much as £250 million and the Government was not taking action to offset more than £100 million of this. Account also had to be taken of the additional overspend in Scotland. The more that was done to cut back the overspend in 1976-77 the less difficult it would be to meet the very stern requirements which had been imposed for 1977-78. It was also likely that a reduction in the Order would spur authorities to achieve further economies in their expenditure. On all these counts it would be better to reduce the Increase Order by £100 million for England and Wales and to take parallel action in relation to Scotland. It was not possible to predict with any certainty the extent to which a cut in the Order would lead to a need for supplementary rates. The reserves and balances of individual authorities were not known but in total they amounted to some hundreds of millions of pounds.

In further discussion it was pointed out that there was no way in which the Government could discriminate between authorities in the current financial year. Further consideration could be given to the possibility of discrimination being introduced in the following year but this would give rise to very considerable problems. It was not at present possible to identify which authorities were adhering to the Government guideline because there was no knowledge of the size of the burdens different authorities bore in particular sectors. If discrimination were to be introduced it would impose a very large staff burden. It was also argued that careful consideration should be given before the next financial year to the resources element in the formula for the calculation of Rate Support Grants. Its effect was to ensure that authorities which overspent in one year secured a large share of the amount available for grant in the following year.

The point was also made that a cut in the Increase Order of £50 million was likely to cause a loss of 18-20,000 jobs. It was unlikely however that there would be any redundancies since this reduction could be achieved by natural wastage and stopping recruitment. It was not correct to argue that the burden of reducing expenditure would be met wholly by cuts in capital programmes since the local authorities had already achieved considerable reductions in administrative costs.

In further discussion it was argued that even if the argument pointed to a reduction in the Increase Order it would be inadvisable to announce this at present. The figures were as yet uncertain and there was no need to make an announcement until the Order itself was published in the late autumn. Local government, with the trade unions, was one

of the main areas of support for the Government and it would be very foolish to alienate support at a time when the future of the incomes policy had been made less certain by the recent expenditure cuts. On the other hand it was argued strongly that a commitment had already been given to announce the Government's response in the very near future, and that without a statement on the Increase Order this response would appear very weak. If reduction had to be made in expenditure in the current year it was far better for local authorities to know the position at the earliest possible moment.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that it was necessary to act to cut back the prospective overspending by local authorities in the current financial year. The balance of opinion was that the target should be to reduce the overspend by £100 million on the basis that the remainder would be offset by reductions in the following financial year. Of this total up to £50 million should be achieved by a reduction in the Rate Support Grant Increase Order, though the Secretary of State for the Environment should have discretion to settle on a lower figure if he was satisfied that he could nevertheless achieve the target saving of £100 million. The balance of advantage appeared to lie with announcing the Government's decision at the earliest possible moment. The Cabinet were in agreement that there was no possibility in the current year of discriminating between one local authority and another but they wished to give further consideration to the possibility of such discrimination being introduced in subsequent years. The Cabinet had noted that parallel action in Scotland could give rise to very serious political difficulties but on balance they did not feel it possible to justify refraining from taking parallel action there. The Secretary of State for Scotland should therefore proceed accordingly, though he would of course be free to report back if unmanageable difficulties arose. Care would be needed in presenting these decisions to the Government's traditional supporters in local government and he would himself consider whether he might make a speech putting the Government's policies in perspective.

The Cabinet -

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

4. Agreed that action should be taken to try to secure a reduction of £100 million in the prospective overspend by local authorities in England and Wales in 1976-77 and that the balance of the overspending by the authorities should be offset by savings in 1977-78.

5. Agreed that the 1976 Rate Support Grant Increase Order in England and Wales should be reduced by up to £50 million but that the Secretary of State for the Environment should have discretion to substitute a lower figure so long as he was satisfied that this was compatible with Conclusion 4.

6. Agreed that parallel action should be taken in respect of Scotland.

7. Invited the Secretary of State for the Environment, in consultation with the Chancellor of the Exchequer, to bring before the Cabinet in good time before decisions were needed on the Rate Support Grant for 1977-78 a paper setting out the issues which would be involved in discriminating between local authorities in the calculation of Rate Support Grants.

UNEMPLOYMENT AMONG YOUNG PEOPLE
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Educational Maintenance Allowances

Previous Reference: CM(76) 21st Conclusions, Minute 4

4. The Cabinet considered a memorandum by the Secretary of State for Education and Science and the Secretary of State for Wales (CP(76) 66) containing proposals for the introduction of educational maintenance allowances.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that he and the Secretary of State for Wales proposed the introduction in England and Wales of a scheme of educational maintenance allowances broadly resembling the existing Scottish scheme. Allowances would be awarded by local education authorities on a discretionary basis, as at present, to enable boys and girls over 16 to remain at school or in full-time education, but in accordance with nationally prescribed scales and methods of assessment of parental income. This was one of the most cost-effective measures which could be taken to deal with the problem of children, especially from poorer families, who left school at 16 although they had no job prospects because only in that way could they qualify for social security benefits. The scheme might result in an additional 21,000 children staying on in education, at a cost of £14 million in a full year, but with offsetting savings on supplementary benefits. No extra resources of staff or buildings would be required. The scheme, which would be welcomed by the Trades Union Congress (TUC) and the Party, could be justified as part of the package of measures to deal with unemployment among young people being announced that afternoon, and it was entirely in tune with the Government's general

approach that children should be able to stay on in education regardless of means. Once introduced the scheme would probably have to be retained, but the problems of unemployed school-leavers were likely to persist. Ninety per cent of the cost would be met by the central Government, and this would require an amendment of this Session's Education Bill in the House of Lords, to provide the necessary powers, and an amendment of the financial resolution when the Bill returned to the Commons. The scheme could then come into operation from the school-leaving date next Easter.

In discussion it was argued that this would be a permanent and open-ended addition to public expenditure, which would involve paying allowances to some 55,000 children who already stayed on at school in order to enable a much smaller number of other children to stay on. The scheme would conflict with the Government's current stance on public expenditure. Many Departments which had just suffered painful expenditure cuts would have leapt at the chance of an additional £14 million, and the recent public expenditure decisions should not now be reopened. The proposal would be inconsistent with what the Government had been saying about the current expenditure of local authorities, who would have to find 10 per cent of the cost and administer the scheme, and who were about to be told of a £50 million reduction in this year's Rate Support Grant Increase Order. The scheme was not sufficiently important to justify the introduction of a new specific grant, which would create demands for other new specific grants. It would be bizarre to tack an important new measure of this kind on to the Education Bill in the House of Lords, having just guillotined the Bill in the Commons. On the other hand, it was argued that all possible steps should be taken to deal with unemployment among school-leavers, which was one of the most damaging aspects of the life of the country. The package of measures to be announced that afternoon was not large, and this scheme would be a welcome addition. Neither House of Parliament was likely to make difficulty over the adoption of an unusual procedure for such a purpose. Large sums of money were spent on helping students in higher education, yet many able working-class children lost the chance of a university education because no help was available to stay on at school. The problem of unemployment among the young was likely to persist for some years, and a scheme such as this which would act on a longer timescale would be a valuable complement to the shorter-term measures. A child's prospects of continuing in education should not depend on whether he or she lived north or south of the border.

In further discussion it was urged that no immediate decision should be taken for or against the proposal to introduce educational maintenance allowances. It was not wholly clear whether their main

justification was their effect on unemployment or their educational effect. The Social Services Committee had not had adequate time to consider the matter fully, and it might be that other measures, such as additional spending on vocational training, especially in scarce skills, would provide better value for money. Several other possible measures were still under consideration - the job swap scheme, expansion of the job creation scheme, continuation of the temporary employment subsidy - and in view of the public expenditure constraints these different possibilities were to some extent in competition with each other. It would, however, be better not to mention in that afternoon's statement that the possibility of introducing educational maintenance allowances was under consideration, or the statement would be overloaded with proposals which were not yet firm and which might come to nothing. Further information was desirable about the costs, and the effects in keeping children off the streets, of this scheme and of the other possibilities. In particular, firmer figures were needed on the proportion of the expenditure on educational maintenance allowances which would relate to children who would have stayed on in education anyway, the number of extra children who would stay on, and the savings on supplementary benefits. A survey on these points, and a comparison of current experience in England and Wales and in Scotland, might be useful.

THE PRIME MINISTER, summing up the discussion, said that some members of the Cabinet favoured an immediate announcement that educational maintenance allowances would be introduced next year, while others considered that a case had not been established for introducing this particular scheme now. The problem of unemployment among the young was of major importance, and high priority should be given to further action to deal with it, notwithstanding the pressure on the contingency reserve. There were however several other proposals for such action on which final decisions had not yet been taken - the job swap scheme, expansion of the job creation scheme, continuation of the temporary employment subsidy, and the work experience scheme - and the possibility of expansion of vocational training had been mentioned during the discussion. While therefore the general view of the Cabinet was that something more must be done they were not yet in a position to reach firm decisions. The Social Services Committee should accordingly give further urgent consideration to the proposal for educational maintenance allowances and other possible measures, and bring the matter back to the Cabinet in mid-September with specific proposals for the most sensible and cost-effective measure or combination of measures which could be taken. The Committee should take account of the points made in the Cabinet's discussion, and should in particular make a comparative assessment, in as concrete

terms as possible, of the costs of each measure and its effect in reducing unemployment among the young. The Cabinet should then aim to reach a firm decision in time to amend the Education Bill in the House of Lords if it was decided to introduce educational maintenance allowances. The Secretary of State for Education and Science should reply to the TUC letter of 26 July expressing the Government's willingness to discuss with them the possibility of introducing educational maintenance allowances, and discussions should also be arranged with the local authorities. Nothing should be said about the educational maintenance allowances in that afternoon's statement. The Government's public position, pending a decision in September, should be that they planned to bring forward further proposals, and that educational maintenance allowances were one of the possibilities under consideration, which the Government would be discussing with the TUC and the local authorities. The Cabinet noted that the terms of the statement by the Secretary of State for Employment that afternoon had now been agreed, and would make no reference to the temporary employment subsidy.

The Cabinet -

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

Cabinet Office

3 August 1976