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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.

SECRET

SUBJECT INDEX

(CM (76) 1st–43rd Meetings)

SUBJECT INDEX

(CM (76) 1st–43rd Meetings)

SUBJECT INDEX

(CM (76) 1st–43rd Meetings)

SUBJECT INDEX

(CM (76) 1st–43rd Meetings)

A

B

EUROPEAN ECONOMIC COMMUNITY (continued)

British Presidency—minorities to submit report C 30 9 (1).

Long Term objectives; Foreign and Commonwealth Secretary to submit a further memorandum C 36. 9 (1).

Improvements sought in the procedure for fixing Community farm prices CP 31, 9 (2).

Direct Elections; negotiations to continue on lines set out in Green Paper; Select Committee report to be considered by Parliament CP 25, 9 (3).

Proposals for the design of the EEC uniform passport; design agreed CP 27, 9 (4).

Direct Elections; Select Committee recommendations and Green Paper proposals accepted CP 46, 14 (2).

Prime Minister's Statement on the meetings of the European Council on 12–13 July 15 (2).

Progress made in extending fishing limits to 200 miles; proposed tax on vegetable oils and fats opposed: proposals for a sheepmeat regime inconclusive 20 (2).

Timetable for direct elections: compromise proposal agreed CP 61, 21 (6).

Direct Elections to the European Assembly; legislation to be introduced in the next session; allocation of seats; constituency boundaries; Northern Ireland electoral system to enable a Catholic to be elected CP 88, 27 (5).

EEC—United Kingdom Presidency: handling of the Presidency and the general approach to be adopted CP 92, CP 93, CP 94, 29 (4).

Proposed uniform EEC passport agreed CP 100, 31 (5).

Common Agricultural Policy: short and long term strategy CP 112, 34 (2).

European Council Meeting 29–30 November: statement by the Prime Minister 36 (2).

Developments in the European Communities November 1975–April 1976 CP 24.

Developments in the European Communities May–November 1976 CP 129.

EXPENDITURE COMMITTEE

White Paper on Postgraduate Education CP 69.

F

FALKLAND ISLANDS

Shackleton Report recommendations: feasibility studies to be commissioned. Minister to visit area for consultations with Islanders and the Argentines to see whether there was a possibility of joint talks 42 (2).

FINANCIAL AID TO POLITICAL PARTIES

Houghton Committee Report CP 71.

FOREIGN AFFAIRS

Meetings of Council of Ministers 42 (2).

FRANCE

Report of the Prime Minister's talks with President Giscard d'Estaing 11 (2).

FRANK'S COMMITTEE REPORT

See OFFICIAL SECRETS ACT.

G

GENETIC MANIPULATION

White Paper CP 70.

H

HEALTH AND SAFETY AT WORK

Further examination of estimates of cost and consultation with the local authorities: discussion to be resumed CP 73, 23 (3).

Working group of Officers to examine costs of supplementing regulations CP 78, 24 (5).

Regulations not to be brought into effect in 1977–78 CP 103, 32 (6).

P

PARLIAMENTARY AFFAIRS

PARLIAMENTARY AFFAIRS *(continued)*

All business, which had to be carried before Christmas completed. Scotland and Wales Bill to require further consideration after recess 43 (1).

Legislative Progress and Prospects 1976–77 CP 137.

PASSPORTS

Uniform European Economic Community passport design agreed CP 100, 31 (5).

POST OFFICE INVESTMENT

See PUBLIC EXPENDITURE.

PRESS LEAK

See CABINET.

PRICE CODE

Consultative document to be published CP 34, 11 (4).

PROGRAMME ANALYSIS AND REVIEW (PAR)

Present system and its cost to be reviewed before consideration of future programme Select Committee on Expenditure not to review PAR reports CP 19, CP 20, 6 (4).

PAR system, to continue with modifications; paper to be circulated proposing PAR studies for 1977 CP 82, 26 (3).

PUBLIC SECTOR PENSIONS

No action to be taken to restrict pension increases covered by the percentage rise in the Retail Prices Index CP 32, 10 (4).

Pensions increases in the Public Sector CP 127.

PUBLIC EXPENDITURE

See also REGIONAL AND INDUSTRIAL POLICY.

Contingency reserve progress report—depleting of reserves; need for restraint CP 6, 2 (4).

Public Expenditure progress report—local authority overspending; review of housing expenditure; Ministers responsible for Nationalised Industries to cut down claims. Overseas students—less saving than anticipated. Further consideration of social security payments to students 6 (3).

Cut of £1 billion in public expenditure: review of spending on overseas aid, defence, agriculture, fisheries, forestry, food subsidies. CP 47, CP 48, CP 49, CP 50, CP 52, CP 53, 15 (3).

Treatment of British National Oil Corporation's expenditure 15 (3), 16 (1), 18.

Cuts in energy programmes, British Airways and British Airports Authority expenditure and road expenditure. Secretary of State for Industry to review Nationalised industries investment. Regional Employment Premium savings. Local Authority mortgage lending and cuts in house building to be reviewed CP 54, CP 55, 16 (1).

Cuts in housing expenditure in Wales, arts expenditure, nationalised, industries investment, common services, water services and expenditure in Northern Ireland. Increase in dental and ophthalmic charges, restraint of unemployment benefit for occupational pensioners 17.

Review of agreed cuts; cuts in Scottish housing expenditure, health and personal services, possible Trade Union Congress reaction 18, 19.

Surcharge on employers' National Insurance contributions, Junior Ministers to be informed of the package cuts; statement to be made by the Chancellor of the Exchequer CP 56, 20 (3).

Follow up proposals: additional statistics, local authority overspending CP 64, CP 65, 22 (3).

Public expenditure from 1976–77 to be held within existing cash limits: unforeseen difficulties or increased rate of inflation to be reviewed in the light of current circumstances CP 85 27 (2).

Public expenditure 1978–79 and later years. Contingency reserves and claims, limited local authority expenditure; Chief Secretary to bring forward proposals to offset housing expenditure; additional bid for health and social services for 1980–81; claims by Department of Energy to be met; maternity fund expenditure agreed; Defence estimates to be kept in line CP 91, 28 (2).

ROAD ACCIDENTS—RECOVERY OF TREATMENT COSTS

Bill to be introduced permitting charges to be levied in 1977–78 if no alternative expenditure savings are found CP 97, 30 (2).

S

SAFETY AT WORK

See HEALTH AND SAFETY AT WORK.

SEAMEN'S THREATENED STRIKE

Prime Minister to see National Union of Seamen's Executive if Trades Union Congress conciliation fails: no recall of Parliament or the taking of emergency powers at present 23 (4).

Agreement reached 24 (6).

SELECT COMMITTEE

See PARLIAMENTARY AFFAIRS.

PROGRAMME ANALYSIS AND REVIEW (PAR).

SMOKING AND HEALTH

Statutory control over tobacco additives and substitutes: legislation to be introduced early in the 1977–78 session: White Paper on proposals to be considered CP 83, 26 (4).

SOCIAL SERVICES

See also PARLIAMENTARY AFFAIRS.

PUBLIC EXPENDITURE.

Child Benefit rate—further study on proposals CP 2, CP 3, CP 4, CP 5, 2 (3).

Child Benefit: further consideration before final decision CP 3, CP 7, CP 8, 3 (3).

Child Benefit—modified scheme: consultation with the Trades Union Congress CP 18, CP 21, 6 (3).

Child Benefit Scheme; payments to be introduced as from April 1977 7 (5).

Child Benefit—Supply Day debate; motion for the adjournment to be accepted 11 (1).

"*New Society*" article on Child Benefit; Prime Minister to make statement 12 (1).

Child Benefit Scheme accepted on the basis that certain points would need further consideration later CP 76, 24 (3).

SOUTH AFRICA

Detention of Mrs. Rabkin, official representation made 22 (2).

European Economic Community to work out a joint strategy for consideration by Foreign Ministers 36 (2).

SOUTHERN AFRICA

See RHODESIA.

STEEL INDUSTRY

Chairman-designate of British Steel Corporation to be consulted about possible cessation of steel-making at Shotton. Part of the modernisation of Port Talbot approved CP 11, CP 17, 5 (2).

SUGAR

See CANE SUGAR REFINING INDUSTRY.

U

UGANDA

Proposed action following the apparent murder of Mrs. Block and President Amin's threats against our nationals 15 (2).

Withdrawal of Acting High Commissioner following the breaking off of diplomatic relations: French Embassy assuming responsibility for the protection of British interests 21 (2).

Arrest of Mr. Clegg and Mr. Tully; no conclusive information about their treatment known 22 (2).

UNEMPLOYMENT AMONG YOUNG PEOPLE

Proposal to replace existing recruitment subsidy for school-leavers by a new subsidy of £10 per week payable for six months; expansion of training places provided by the Training Services Agency; further consideration of a work experience scheme and a job swap scheme CP 51, 15 (4).

Ministerial group; proposals to alleviate unemployment: recruitment subsidy: expansion of training facilities. Further consideration on job swap scheme; educational maintenance allowances; statement to be made CP 58, CP 60, CP 62, CP 64, 21 (4) CP 66, 22 (4).

Job creation and release schemes agreed. Policy of retaining the over 65s in the civil service to be examined CP 77, CP 79, 24 (4).

UNITED STATES

Contacts with the new administration 42 (2).

V

VEHICLE EXCISE DUTY

See Civil Service.

W

WATER SUPPLIES

See Drought.

WINDSCALE: NUCLEAR WASTE PROPOSALS

British Nuclear Fuels Limited to withdraw their application and resubmit three separate projects CP 132, 42 (7).

Planning application by British Nuclear Fuels Limited to be submitted to a Statutory Planning Inquiry, announcement to be made. Lord Chancellor to approach Sir Douglas Frank to ascertain whether he would act as presiding inspector 43 (2).

WORLD FOOD CRISIS AND THIRD WORLD DEVELOPMENT

Implications for United Kingdom policy CP 67.

Cabinet Office,
March 1977

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CM(76) 23rd
Conclusions

COPY NO 84

CABINET

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

THURSDAY 9 SEPTEMBER 1976

at 11.00 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

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 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

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 1)
Mr D le B Jones	(Items 2-4)
Mr J A Marshall	(Items 3 and 4)
Mr J D Bryars	(Item 1)
Mr C J Farrow	(Item 2)

CONTENTS

FOREIGN AFFAIRS

China

1. THE FOREIGN AND COMMONWEALTH SECRETARY informed the Cabinet that news had just been received of the death of Chairman Mao Tse-tung. This, following closely on the death of Prime Minister Chou En-lai, must be expected to lead to a period of uncertainty in China in which the moderate and radical elements would compete for leadership. But no change was likely in China's foreign policy or in her attitude towards the Soviet Union. A message of condolence on the death of Chairman Mao Tse-tung had been sent by the Prime Minister to the Prime Minister of China.

The Cabinet -

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

Southern Africa

The Cabinet discussed Southern Africa. This discussion is recorded separately.

CANE SUGAR REFINING INDUSTRY

2. The Cabinet considered memoranda by the Minister of Agriculture, Fisheries and Food (CP(76) 75), and by the Secretary of State for Prices and Consumer Protection and Paymaster General (CP(76) 74), on the question whether the non-sugar aspects of the takeover bid by Tate and Lyle Ltd for Manbre and Garton Ltd should be referred to the Monopolies and Mergers Commission.

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION AND PAYMASTER GENERAL said that she had asked that the Cabinet should review the decision by the Ministerial Committee on Economic and Industrial Policy (EI) that there should be no reference to the Monopolies and Mergers Commission of the non-sugar aspects of Tate and Lyle's takeover bid for Manbre and Garton because she was worried that this decision would be seriously damaging to Government policy on mergers and would lay the Government open to criticism. The volume of representations against allowing this takeover bid to go ahead without a reference had been unprecedented. They came from a very wide range of customers and from the union representatives at all of Manbre and Garton's refineries. A representative of some of the major consumers had also made clear that he would not regard voluntary assurances by Tate and Lyle about their future conduct as being of any value. She was particularly concerned about the nature of consultation which had taken place over the two companies' plans for rationalisation of cane sugar refining. In May EI had considered various ways in which rationalisation could be carried out and had

favoured the course then known as option iv, which was based on the premise of unified control by Tate and Lyle. Since then the Ministry of Agriculture, Fisheries and Food had discussed this course with Tate and Lyle, but not with Manbre and Garton nor with the trade unions concerned as EI had asked. She accepted that it would have been difficult to discuss Tate and Lyle's proposals with the other parties before their takeover bid had been made public. After circulation of the bid, however, Manbre and Garton had put into question the premises on which the consideration of rationalisation proposals had taken place and had claimed that job losses on the scale envisaged in option iv were not necessary. It would be most damaging for a decision to be reached against a reference without a full understanding of the facts because inadequate consultation had taken place. She recognised that time was of the essence for decisions on rationalisation and she had therefore established with the Monopolies and Mergers Commission that any reference would be completed by Christmas. Since rationalisation decisions were not required until March a reference would cause no delay. In any case there was no question of a reference covering the cane sugar refining interests of the companies. Reference of the other aspects by holding up the bid would give time for discussions between the companies about unified control of their sugar interests which could go ahead with no delay at all and for fuller consultations with them and the trade unions. In her view a reference of the non-sugar aspects was vital since there was disagreement about the unemployment consequences of the merger and because the interests affected had not been adequately consulted. The case was reinforced by the fact that it would cause no delay.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that he did not accept Manbre and Garton's allegations that they had not been properly consulted. There had been continuous consultation both at Ministerial and official level. He also regarded it as inappropriate to put undue weight on the views of particular consumers - there were in fact differing views. Since the two companies were concerned with different unions the Government would in the end have to decide. The crucial issue, however, was that in order to reach the most satisfactory solution to the inevitable and substantial contraction of the cane sugar refining industry it was necessary to look at all six refineries together. This came out clearly from the unsatisfactory proposals which Manbre and Garton had put forward for preserving their own capacity, which would have resulted in redundancies in Greenock and Liverpool and large exchequer costs for the conversion of the Manbre plant at Newton-le-Willows from cane to beet refining. It was in recognition of this need for rationalisation to be based on the interests of the industry and the country as a whole that all Ministers had agreed that there should be

no reference of cane sugar refining. The only question at issue was whether to make a reference of starch and glucose, but such a reference would bring the proposals for rationalising sugar refining back to square one. That was in essence the case against a reference, but the case for reference had in any case been greatly weakened by the undertakings which Tate and Lyle were prepared to make and which could be quoted in public:-

a. to continue production of the full range of products now offered by both companies so long as customers wanted them and to set up an independent committee to vet the company's service to its customers; and

b. to keep Manbre and Garton's starch and glucose business as a separate and self-contained entity for three years.

The latter undertaking meant that if in the light of experience a monopolies reference were necessary it would be possible for Manbre and Garton's business other than sugar to be separated from the merged company.

In discussion it was argued strongly that there was a clear need for substantial reduction in capacity in the cane sugar refining industry. The major issue for the Government was where the reduction in employment should fall and what replacement jobs could be found. The two companies had discussed the issues for some years but had achieved no result. If Tate and Lyle secured full control they might be able to bring about the solution which would be most satisfactory from the Government's point of view but there was no chance of this while Manbre's interest remained separate. Manbre's suggestion that a substantial reduction in manpower could be avoided was quite unrealistic. All Ministers were agreed on the need for unified control of the sugar refining interests and by deciding against the reference in this, the major market, they were taking a judgment on the public interest. If a reference were made on the separate and subordinate issue of starch and glucose the sugar rationalisation plans would fall. Moreover if a reference were confined to the non-sugar interests of the companies the Commission could not take account of the problems of sugar rationalisation which were the main arguments for a merger.

On the other hand it was argued that the chances of Tate's bid being successful were not high even if there were no reference; it had been accepted so far by only $3\frac{1}{2}$ per cent of Manbre and Garton shareholders. If the bid failed in the market the Government's relationships with Manbre and Garton and with their trade unions would have been prejudiced unnecessarily. If no reference were

made this would be the first time that a strong recommendation by the Director General of Fair Trading in favour of a reference had been rejected. It could have a damaging effect on future monopolies and merger policy.

THE PRIME MINISTER, summing up the Cabinet's discussion, said that it had been previously agreed that there would be advantage in unified control of the cane sugar refining industry and that accordingly there should be no reference to the Monopolies and Mergers Commission of any merger of those interests. It was the clear view of the Cabinet that this major interest should not be prejudiced by reference of the starch and glucose sectors which were of lesser significance. Concern had been expressed about the effect which this decision might have on future merger policy and there would be advantage in reviewing this policy in the light of accession to the European Economic Community and the greater degree of competition to which the national market was consequently exposed.

The Cabinet -

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

2. Agreed that no aspect of Tate and Lyle's takeover bid for Manbre and Garton should be referred to the Monopolies and Mergers Commission.

3. Invited the Secretary of State for Prices and Consumer Protection and Paymaster General to arrange for a review of mergers policy in the light of British accession to the European Economic Community and to report to the Ministerial Committee on Economic and Industrial Policy.

SAFETY REPRESENTATIVES AND COMMITTEES

3. The Cabinet had before them a memorandum by the Secretary of State for Employment (CP(76) 73) about the appointment of safety representatives by trade unions and the setting up of safety committees in places of employment by employers.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the measures set out in his paper stemmed from proposals which had been put to him unanimously by the Health and Safety Commission, on which the Trades Union Congress (TUC) and the Confederation of British Industry (CBI), as well as the local authorities, were represented. He was proposing to make Regulations and to approve a Code of Practice whereby each trade union would have a statutory right to appoint a safety representative at every place of work in which it had members; the functions and rights of safety representatives would be prescribed; employers would be required to give those representatives time off with pay to carry out their functions; and the employers would be required, in prescribed circumstances, to establish a safety committee. In his view to fail to implement these proposals would be interpreted by the TUC as a serious matter, casting doubt on the Government's intention to implement the other worker-representative elements in the Employment Protection Act as well as the Health and Safety at Work Act. The objections which had been put forward by his colleagues were based largely on the cost to the public sector. The estimates by some Departments were in his view very exaggerated, apparently being based on the appointment of far more safety representatives than could possibly be trained in the time available. He reminded the Cabinet that under his proposals an employer would be free to agree or disagree the number of representatives to be appointed, and if the unions' proposals on this were disagreed they would have to be taken through all stages of the normal negotiating machinery, and ultimately to an Industrial Tribunal, before the matter was settled. This would undoubtedly keep within reasonable bounds the number of representatives appointed. His fear was that if the Government did not act as he proposed, the trade unions would pursue these safety measures by industrial means, and might well seek far more than the statutory rights now envisaged. In his view it should be possible for the central Government cost to be absorbed in the initial stages; and he thought that £10 million might be allocated to local authorities in 1977-78 to meet any extra cost. He did not think it was realistic to envisage going back to the Health and Safety Commission to ask them to revise their proposals; nor did he think it desirable, given the strong trade union interest, to defer a decision - although it would be possible to lay the Regulations soon but with an effective date deferred until, say, 1 April 1977.

In discussion, it was argued that while there was no disagreement in principle that the Employment Protection Act should be implemented, there were reasons for postponing that implementation. It was not merely that the potential cost was high, but that there was a very large range of difference in the estimates before Cabinet of the cost, and it would be wrong to go ahead while such uncertainty prevailed on this important aspect. For the Civil Service the cost could be £5 million a year, with a further £2.7 million for the Health Service - although higher estimates had been made; and for local authorities the estimate ranged from £2.8 million favoured by the Health and Safety Commission to £24 million arrived at by the responsible Departments and £80 million which had been put forward by the local authorities themselves. The cost in defence establishments could be considerable. With these discrepancies the question clearly needed further examination. In addition it would be necessary to ensure that whatever costs were incurred could be either offset or absorbed, since otherwise they would represent demands on an already overstrained contingency reserve. In this connection the difficulty of asking the local authorities, through the Consultative Council, to absorb this cost at a time when they were being urged to eliminate overspending and the Government Rate Support Grant for 1976-77 and 1977-78 was being cut back, was obvious. It had been a repeated theme at the Consultative Council meetings that the Government simultaneously pressed the local authorities to undertake additional activities and to cut their expenditure. Furthermore, there was little point in setting up Safety Committees in public sector establishments such as schools if - quite apart from the cost of the Committees themselves - there were to be no extra money available for carrying out the recommendations the Committees were likely to make, which would probably involve building work. All in all, there was a strong case for considering the matter further, and in particular for re-examining the cost estimates.

Against this, it was argued that the higher estimates of cost were clearly based on an unrealistic assessment of what would happen in practice. In schools, where the safety risks were relatively small, the estimates might really only be the notional cost of the time a teacher was absent from his class on safety work - although the unions could be expected to use this as an argument in favour of more teachers. What mattered, however, was the attitude of the TUC, who placed great store by the implementation of the Employment Protection Act. They wanted allocation of responsibility to the trade unions, this being the key to industrial democracy. Much of the opposition to the present proposals was really only obstruction. Whatever the true burden of costs, they would only work up slowly. It was notable that the energy industries had already said that the proposals would involve them in no extra costs.

THE PRIME MINISTER, summing up the discussion, said that a number of members of Cabinet felt that the estimates of cost needed further examination in view of the wide disparity of the figures before Cabinet, and took the view that in any case before any action could be taken serious consultation with the local authorities on both the cost and the way in which it should be financed was necessary. On the other hand, Cabinet recognised that there were strong and serious trade union pressures for the implementation of proposals along the lines put forward by the Secretary of State for Employment. One possible way of proceeding might be to provide for the implementation of the Regulations at different times in different sectors. The matter was one which required further thought, and in view of the urgent business still to be considered that morning, the best course would be for the Cabinet to adjourn its consideration for the time being and to resume discussion at the next meeting.

The Cabinet -

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

SEAMEN'S STRIKE

4. THE PRIME MINISTER said that in considering the seamen's strike, which had been announced the previous day, the Government should avoid dramatising the situation. The experience of 1966 gave no warrant for the adoption of doomsday attitudes. The seamen had a case in logic, though not necessarily in equity, for their arguments, and it would be important to avoid casting them as either wreckers or villains. There could be no victors in this sort of strike. If the seamen won, the consequences for pay policy generally could be serious; while if the seamen lost the country would have lost too from the effect of the strike. He had it in mind that, if the current efforts of the Trades Union Congress (TUC) were unsuccessful, he might appeal to the Executive Council of the National Union of Seamen (NUS) on these lines and seek to get them to reverse their vote in favour of a strike. He had also reached the view that if the strike seemed inevitable he should cancel his projected visit to Canada. The Contingencies Unit at official level had that morning considered the possible effects of the strike. Some two-thirds of the United Kingdom's overseas trade was carried in foreign ships, which meant that the effects of a strike would be greatly reduced unless foreign crews or dockworkers took sympathetic action. In general the domestic economy would not be significantly affected adversely for 2-3 weeks; and stocks of major foodstuffs such as grain and wheat were sufficient for 3-4 weeks. No difficulty was expected in relation to coal, electricity and gas, but the oil industry would feel some effects after 2-3 weeks. Some difficulties might arise regionally - eg in the case of the Scottish Isles in relation to fresh milk. In 1966 a growing problem was caused by congestion in the ports as ships arrived home and were laid up, and this was something the Department of the Environment would watch and provide reports on. Port Emergency Committees would be set up, but the present view was that it would be premature to consider taking emergency powers which would involve recalling Parliament. He observed that Mr Len Murray of the TUC had indicated that it would be helpful if the Government would make it clear that they stood firmly by the pay policy; and this he was prepared to do, although he would need to avoid making the mistake of the last Conservative Prime Minister and getting himself completely boxed in.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the NUS saw their 1975 wages settlement, which preceded the introduction of pay policy, as historic, since it changed the basis upon which seamen were paid. A Board of Arbitration had given a decision whereby from 2 July 1975 the seamen were based upon a 40 hour, 5 day week, with improvements in their basic pay and in their efficiency pay, as well as in their arrangements for overtime payment. All the improvements were staged. The aim had been to put the seamen in a position comparable with other leading Merchant Navies. As a result, the seamen had had an immediate increase in 1975 of £6.55 a week, with increases of from 25p to 92p a week in efficiency pay.

followed by a later increase of £8.55 a week plus 50p to £1.50 a week in efficiency pay. From 2 July 1976 they had received improved overtime payment. Under the transitional provisions for the second round of incomes policy, any further improvement could only be paid on the anniversary of the date of the highest staged payment, which meant the seamen could have nothing until January 1977 when they would be entitled to an increase within the limits of stage 2. The NUS had tried to argue that the arbitration award should be treated as if it had not been staged, but this had been rejected by the Government, the TUC Economic Committee and the TUC General Council. The vote in the Executive Council in favour of a ballot had been 10-7 with one absentee; while at the previous day's meeting the vote in favour of an all-out strike had been 9-5, four members being absent. Those members of the Executive who opposed the strike had been in favour of an overtime ban in United Kingdom ports, but no resolution to this effect had been put to the Executive. Mr Murray had the previous evening seen the General Secretary of the NUS and made it clear that there was no change in the view taken by the TUC General Council, and the TUC Economic Committee hoped to see the NUS Executive Council later in the day. In his view the Government should make no move until it was quite clear that the TUC had failed to move the NUS.

THE CHANCELLOR OF THE EXCHEQUER said that, while he fully agreed that the impact of the strike on the economy must not be exaggerated, the financial effect was undoubtedly severe. Sterling had been edgy during August, but there had been no significant fall in foreign government holdings of sterling since June (after large withdrawals in the second quarter of the year). Nevertheless, the cost of fighting off odd bouts of selling had meant that $1,100 million of the $5,300 million standby facility had been spent. The prospect of the result of the seamen's ballot had led to pressure on sterling in the previous two days; and that morning the result of the decision to strike had led to heavy selling so that the rate had fallen between 3 and 4 cents before recovering slightly. As a result the Discount Houses' minimum lending rate would increase the following day, and this would add to the difficulty of handling the Government's internal deficit, since it would be more difficult to sell Government debt. In addition there was the major problem of financing the external deficit, on which he would put proposals to Cabinet in due course.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that if the TUC failed to persuade the NUS to change their line, he should himself see the NUS Executive with a view to persuading them to reverse their decision before the strike began. For the time being there was no need to consider the recall of Parliament or the taking of emergency powers. He would keep in touch with a small group of colleagues over the weekend as necessary.

The Cabinet -

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

Cabinet Office

9 September 1976

COPY NO 11

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 23rd Conclusions, Minute 1

Thursday 9 September 1976 at 11.00 am

FOREIGN AFFAIRS

Southern Africa

THE FOREIGN AND COMMONWEALTH SECRETARY said that he had discussed Southern Africa with the American Secretary of State, Dr Kissinger, at the end of the previous week and that Dr Kissinger had visited London again for talks with the Prime Minister after his meeting in Zurich at the weekend with the South African Prime Minister, Mr Vorster. In both Namibia and Rhodesia Dr Kissinger's objective was to achieve a peaceful transition to majority rule. For Namibia the prospect was now quite promising. Mr Vorster had agreed to participation by the South West African People's Organisation (SWAPO) in the Windhoek Conference and to the move of the Conference from Windhoek to Geneva; and the representatives of SWAPO were reported to have struck a sensible attitude at the recent meeting at Dar-es-Salaam between the African Presidents and the liberation movements. In Rhodesia Dr Kissinger's aim was to obtain agreement to the formation of an interim government in which Africans would have a majority and whose task would be to negotiate a constitution for an independent Rhodesia. The success of his venture would turn on Mr Vorster's ability to exert pressure on the present regime in Rhodesia and on the support of the Presidents of the neighbouring African States. A vital element in his plan was provision for financial inducements for white Rhodesians to remain in the country for at least a period after independence. For our part we wished Dr Kissinger's initiative well and had helped in working out some of his proposals. But we were not committed to anything in the plan at this stage and had also made clear our insistence on four points. These were that Dr Kissinger's proposals must be endorsed by the African Presidents; that the United Kingdom could have no responsibility for an interim administration in Rhodesia; that the bulk of finance for a scheme of inducements for white Rhodesians must be found by the United States; and that we could not contemplate negotiations with Mr Smith, whose early departure from the Rhodesian Government would be essential to the success of the initiative. Dr Kissinger planned to visit Africa during

the following week and then, depending on the reactions of the African Presidents, to have further discussions with Mr Vorster in South Africa. Dr Kissinger's negotiations were at a delicate stage and it was essential that the information which had been given to the Cabinet should be treated in the strictest confidence.

In the course of a brief discussion it was noted that prospects were much more encouraging in Namibia than in Rhodesia. In view of our important economic interests in Namibia it might be a sensible precaution for us to make further contacts with the movements which might take part in government after independence. Further consideration should be given to this at the appropriate stage. But the Prime Minister, when Foreign and Commonwealth Secretary, had already had many contacts with SWAPO and had encouraged their representatives to hold a series of discussions with the Chairman of Rio Tinto Zinc Ltd. The London representative of SWAPO was not a moderate but the representatives of the organisation in Lusaka had in private shown a full understanding of our position. As regards Rhodesia we should not discourage Dr Kissinger so long as his initiative remained consistent with the principles set out in the statement made by the Prime Minister as Foreign and Commonwealth Secretary in Parliament on 22 March 1976. If Dr Kissinger did not succeed, we could expect nothing but an intensification of the guerilla struggle, supported by the African Presidents; and pressures on us would mount as more white Rhodesians were killed, many of whom would have relatives living in this country.

The Cabinet -

Took note.

Cabinet Office

9 September 1976

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CM(76) 24th
Conclusions

COPY NO 76

CABINET

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

THURSDAY 23 SEPTEMBER 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 Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Items 2-6)

Mr Charles Morris MP
Minister of State, Civil Service Department
(Items 3-6)

SECRETARIAT

Sir John Hunt
Mr G R Denman (Item 1)
Mr W I McIndoe (Item 3)
Mr D le B Jones (Items 4-6)
Sir Clive Rose (Items 1 and 2)
Mr C Wilson (Item 2)
Mr C J Farrow (Item 4)
Mr P S Jenkins (Items 5 and 6)

CONTENTS

CABINET CHANGES

1. THE PRIME MINISTER said he felt sure that at this first meeting following the recent Ministerial changes the Cabinet would wish to place on record their thanks to Mr Jenkins and Lord Shepherd for the contribution which they had made to their deliberations and for their distinguished service both to the Party and to the nation. At the same time they would wish to welcome those members of the Cabinet who were attending for the first time. The Cabinet was a unique institution and the privacy of their discussions was one of its most valuable assets. They should be able to argue differences of opinion freely and with comradeship within the Cabinet, but if there were leaks of their discussions this would not only make for personal divisions but would play into the hands of their political opponents. He wished to say how grateful he had been for the steps which Ministers had taken to maintain close contact with the Party: this was of the utmost importance as was the continuing dialogue over economic policy with the Trades Union Congress. It was difficult to foresee the political situation in the period ahead but he was convinced of the importance both of carrying the Devolution Bill and of adhering to the Government's industrial strategy. Industry was not in bad heart and if we could get through the next two or three years our economic position in the 1980s should be very much better.

The Cabinet -

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

RHODESIA

Previous Reference: CM(76) 23rd Conclusions, Minute 1

2. The Cabinet discussed Rhodesia. Their discussion and the conclusions reached are recorded separately.

CHILD BENEFIT

Previous Reference: CM(76) 21st Conclusions, Minute 1

3. The Cabinet had before them a memorandum by the Secretary of State for Education and Science and Paymaster General (CP(76) 76) reporting the conclusions of the Social Services Committee on proposals to phase in the full Child Benefit (CB) scheme and on consequential problems arising from the phasing out of Child Tax Allowances (CTAs).

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE AND PAYMASTER GENERAL said that the Social Services Committee had agreed with recommendations made by the Secretary of State for

Social Services and the Chief Secretary, Treasury, that the scheme which had been devised by the Working Party of the Labour Party/ Trades Union Congress (TUC) Liaison Committee for phasing in full CB in three years, beginning in April 1977, should be accepted by the Government. For the first year CB would be made tax-free by removing tax and clawback and financing this by an equivalent reduction in CTAs. The effect on take-home pay - a 70p reduction per family - would be the same as in the Government's present scheme, announced in May, for paying a new benefit for first children. For the two subsequent years, it would be open to the Government to consider how the phasing in of CB and phasing out of CTAs should be apportioned, and also to consider the allocation of additional resources, beyond those released from the phasing out of CTAs, to the CB rate. But the full scheme would be introduced in April 1979. On the treatment to be accorded to the parents of non-resident children, for whom CB would not be payable, the Cabinet had previously inclined to the view that CTAs should be retained for a transitional period of about five years. A majority of the Social Services Committee, however, had favoured a three-year phasing out period for these parents on the same basis as for others: and the Committee had agreed that if the Cabinet decided in favour of three years, the Home Office should give priority to the entry to this country of non-resident children in order to avoid hardship. On students, the Committee had concluded that the revenue from the withdrawal of CTAs from their parents should be directed towards reducing parental contributions to the maintenance grant at least to the value of the CTA at the basic rate of tax: two-thirds of students whose parents were assessed for parental contributions received either less than the full amount or none at all. A solution on these lines would have the support of the National Union of Students. But she would consider further with the Chief Secretary, Treasury, the position of parents whose incomes lay between the tax threshold and the starting point of parental contributions since it was important to fulfil so far as practicable the Government's previous assurances that no-one would suffer from the introduction of the full CB scheme. She therefore invited the Cabinet to endorse the proposals for phasing in the CB scheme and for compensating the parents of students for the withdrawal of CTAs; and to consider, in the light of the discussion by the Social Services Committee, the treatment to be accorded to the parents of non-resident children.

In discussion there was general agreement that in the new circumstances of a full commitment by the TUC to phasing in a tax-free benefit at the expense of CTAs, a proposal which was not dissimilar to one which had been discussed with, and rejected by, their representatives in the earlier consultations, the Government should accept the Working Party's recommendations. It was noted that the figures for Inland Revenue staff required for recodings in 1977

and 1978 included a large element of overtime working as distinct from extra staff. Further consideration would need to be given in due course to the amounts of resources to be transferred from CTAs to the CB rate in 1978 and 1979, but at the present 1979 seemed a better year for a major transfer.

On the consequential treatment of the parents of non-resident children, there was considerable support for the view that, in logic and equity, these parents should receive a cash benefit equal to CB and that, given the practical difficulties of this course, they should be allowed instead to retain the full value of their CTAs indefinitely in respect of eligible children overseas. The view was expressed that although the Working Party had not considered the position of non-resident children under their proposals for phasing in CB and although the TUC, in the earlier consultations, had strongly opposed any solution involving differences in take-home pay for the same work, the TUC and Labour Party members of the Working Party would react adversely if a decision were taken to implement the proposals without any concession to non-resident children; and the lack of a concession would be particularly difficult to defend when the cost of allowing a transitional period of, say, five years for the retention of full CTAs could be accommodated within the estimated cost of the scheme already announced by the Government. There was therefore a serious risk that political and public reactions to the Government's acceptance of the phasing in proposals would be largely soured by the belief that non-resident children had been treated unfairly. It was however questionable whether CTAs need be retained for longer than a specified period of transition. On the other hand, it was argued that greater damage to race relations would be caused by a concession which would result in a larger take-home pay for immigrant workers. Suggestions that a phasing out period of three years for CTAs would create hardship for overseas children were not borne out by the average level of remittances to families in the Indian sub-continent which, at £68 annually to cover both wife and children, were several times less than the total value of the CTAs. With regard to the implications for immigration of a three-year phasing out period, it would be impracticable, without adding greatly to the waiting periods for entry generally, to select hardship cases for special priority. Although the waiting periods for applicants in the Indian sub-continent at present ranged from nine to 23 months and there were 26,000 awaiting interview, there had been a striking improvement in the rate of issue of entry certificates last year as compared with 1974 (21,470 as compared with 11,975). There were therefore good grounds for thinking that most of the bona fide applicants would gain entry within the next three years; and it was doubtful whether a phasing out of CTAs would lead to an increase in applications.

On the treatment of parents of students, it was generally agreed that compensation for the phasing out of CTAs should take the form, as proposed, of a reduction in parental contributions.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the proposals put forward by the Working Party of the Labour Party/TUC Liaison Committee for phasing in the full CB scheme should be accepted on the basis that further consideration would have to be given in due course to the amounts by which resources should be transferred from CTAs to the tax-free CB rate in 1978 and 1979 and to the question whether any additional resources should be made available for the CB rate in those years. The Cabinet also agreed with the recommendations of the Social Services Committee that CTAs for the parents of students in higher education should be phased out over a corresponding period and that the resources so released should be used to reduce parental contributions by at least the equivalent of the value of the CTAs at the basic rate of tax. They noted that the Secretary of State for Education and Science and Paymaster General, in consultation with the Chief Secretary, Treasury, would give further consideration to the position of parents whose incomes lay between the tax threshold and the starting point of parental contributions. A clear majority of the Cabinet were opposed to the phasing out of CTAs for parents of non-resident children on the same three-year basis as for other parents and further consideration would need to be given to the question whether the alternative proposal, considered by the Social Services Committee, for the retention of CTAs in full for a transitional period should be adopted or whether, as several members of the Cabinet had argued, full CTAs for these parents should be retained indefinitely. The Secretary of State for Social Services would announce the decisions in a Press statement that afternoon, the text of which should be agreed with the Chancellor of the Exchequer and the Secretary of State for Education and Science and Paymaster General. So far as non-resident children were concerned, the statement should indicate that CTAs would be retained in full in 1977-78 and that the longer-term arrangements for these children would be settled and announced later.

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.

UNEMPLOYMENT AMONG THE YOUNG

Previous Reference: CM(76) 22nd Conclusions, Minute 4

4. The Cabinet had before them a memorandum by the Secretary of State for Education and Science and Paymaster General (CP(76) 77) recording the conclusions of the Ministerial Group on Unemployment among Young People on the priorities between the various measures that had been proposed for action in response to the growing problem of youth unemployment and also unemployment generally. They also had before them a note by the Chancellor of the Exchequer (CP(76) 79) covering a memorandum by the Chief Secretary, Treasury, on the state of the contingency reserve both for 1976-77 and for 1977-78.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE AND PAYMASTER GENERAL said that the Ministerial Group on Unemployment among Young People had agreed unanimously to recommend to the Cabinet three measures - an additional £15 million for the Job Creation Programme, £6.6 million for training in office and clerical occupations and computer programming and operating, and £1.1 million to permit the local authority Careers Service to be maintained at its currently expanded level. They had not however been able to agree on two other larger proposals - for a job release scheme and for a scheme of educational maintenance allowances in England and Wales. The majority of the Group supported the introduction of both, but the Chief Secretary, Treasury, had reserved his position on them and one or two other Ministers had also been opposed. The job release scheme, to which the majority of the Group accorded the higher priority, would remove 65,000 people from the unemployment register at a gross cost of £75 million. The Group had changed their earlier view and now recommended that the unemployed should be eligible. A minority of the Group had reservations on the grounds that the scheme would add to other pressures for early retirement more generally, that it was administratively complicated and open to abuse. Educational maintenance allowances would not affect youth employment until April 1977 but were estimated to lead to 21,000 extra young people staying on in education in 1977-78 at a gross cost of £18 million, rising to 44,000 by 1979-80 at gross cost of £24-£35 million. The advantage of these allowances was that they were relatively cheap and cost-effective: on the other hand once introduced such allowances would be permanent and could be presented by critics as paying pocket money to school-children. The Secretary of State for Scotland had made the important reservation that while he would support both of these two measures he would ascribe still higher priority to continuation of the Temporary Employment Subsidy (TES), which was at present due to be closed to new applications at the end of the year.

In discussion there was general agreement with the three minor measures proposed by the Ministerial Group on Unemployment among Young People. It was pointed out that the decisions on the measures to be adopted needed to be seen against the most recent unemployment

figures. Unemployment now was at its highest level since the war and the increase beyond $1\frac{1}{2}$ million in the previous month had resulted in a much greater degree of criticism. Youth unemployment figures too were very much higher than the previous year. The Trades Union Congress (TUC) had called publicly for very urgent steps to be taken and supported the proposals for both the job release and educational maintenance allowances schemes. It was of paramount importance that the Government retained the support of the TUC whose co-operation was indispensable for the Government's other policies. The whole range of measures proposed were cheap, particularly when offsetting savings were taken into account. The need for substantial action was particularly great in Northern Ireland where unemployment was in general twice as high as in the rest of the United Kingdom and where youth unemployment gave rise to a great security risk. On the other hand it was argued that the Cabinet had earlier taken a decision which must be irreversible, that any increase in public expenditure must be kept within the limit of the contingency reserve. If both job release and educational maintenance allowances were approved there would be very little left in the reserve for 1976-77 while the reserve for the following year, which was still six months away, would be much smaller than had been available for the current year. If further decisions abosrbed any more of the 1977-78 reserve it would be necessary to cut other programmes so as to restore it to a realistic size. While there was always attraction in agreeing new measures account had to be taken of priorities. There would undoubtedly be pressure to extend the TES, and commitments had been given to provide additional resources to the National Enterprise Board and the Scottish and Welsh Development Agencies. It would therefore be wrong to pre-empt too large a proportion of the smaller reserves outstanding by adopting both the measures now proposed.

In support of the job release scheme it was argued that this was the only measure which could bring about an impact on the unemployment figures which was of a scale appropriate to the problem faced. It was pointed out that the proposal was for the scheme to be used on an experimental basis in the assisted areas only. In fact the highest unemployment in the country was to be found in the inner city areas and in any review of the operation of the scheme this should be taken into account. It was argued strongly that if the scheme were introduced it should not be applied to the Civil Service. To do so would conflict with a commitment under an Order in Council of 1969 to fill vacancies by open competition. More generally the effect of the scheme would be to encourage retirement a year early. The Civil Service employed more than 10,000 people aged over 65. The impact of accelerated retirement had not been given adequate consideration and no decision should be taken until this had been put right.

In support of educational maintenance allowances it was argued that their cost-effectiveness as a means of reducing the number of unemployed was far greater than any of the other measures under consideration. Over and above this their introduction was a long-standing Manifesto commitment and there would be long-term advantages to the economy from a larger number of children staying on in education. It was however argued on the experience in Northern Ireland that the numbers taking advantage of the scheme were likely to be very small unless there was an increase in the size of allowance proposed.

It was strongly argued that prolongations of the TES should be given a higher priority than either of the other two measures. The agreed analysis of officials showed that its costs were more than offset by consequential savings. It made no sense whatever to discontinue a measure which actually saved money. Moreover it had proved extremely helpful in enabling companies with financial problems to be kept in existence while longer-term solutions to their problems were found. On the other hand it was argued that as industry grew more familiar with the scheme they were becoming more sophisticated at exploiting it; threats of redundancy were brought forward so as to qualify for the subsidy. It was also applied indiscriminately throughout the country at present. It would be useful to consider whether any extension of it should be limited to particular areas.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the recommendations of the Ministerial Group on the provision of more funds for the job creation programme, training in office and computer skills and the local authority Careers Service. They were also of the view, however, that it would not be right to limit themselves to these relatively small measures. The degree of concern at the level of unemployment was very great both in the trade union movement and in the country at large. There was a wide measure of support for the introduction of a job release scheme and the only serious reservation was that this should not preclude the extension of the TES, at present due to be closed to new applications at the end of the year. The cost in 1976-77 of a prolongation of the Scheme would however be only £7 million and acceptance of the job release scheme would not rule this out. On this basis the Cabinet agreed that the job release scheme should be introduced. Since both the TUC and the Confederation of British Industry were in favour of the unemployed being able to participate this was also agreed. The Cabinet were not in a position to decide whether an exemption was necessary in the case of the Civil Service and this should be resolved between the Ministers directly concerned. There had not been substantial support for the scheme of educational maintenance allowances in the context of the present package but further consideration could be given both to this scheme and to the possible

extension of the TES later in the year. When the Secretary of State for Employment announced these decisions he should not say that these two measures were still under consideration, but if specific questions were asked he might say that decisions on them had not yet been reached. He should agree the text of his statement with the Ministers directly concerned. The Minister of State, Civil Service Department, should look at the Civil Service policy of retaining people over 65 years of age.

The Cabinet -

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

2. Agreed that a job release scheme should be introduced for a period of six months, confined to the assisted areas, and that the unemployed should be eligible to participate. The Secretary of State for Employment and the Minister of State, Civil Service Department, should agree between themselves whether an exeption should be made in the case of the Civil Service.

3. Agreed the recommendations in CP(76) 77 covering the job creation programme, training in office and clerical occupations and computer programming and operating, and for the local authority Careers Service.

4. Invited the Secretary of State for Employment to clear with the Ministers directly concerned the text of the statement announcing the decisions.

5. Invited the Minister of State, Civil Service Department, to have the Civil Service policy of retaining people over 65 years of age examined.

SAFETY REPRESENTATIVES AND COMMITTEES

Previous Reference: CM(76) 23rd Conclusions, Minute 3

5. The Cabinet considered a memorandum by the Secretary of State for Employment (CP(76) 78) about his proposal to make regulations and approve a code of practice under powers in the Health and Safety at Work Act 1974, giving recognised trade unions the right to appoint safety representatives and to oblige employers to set up safety committees.

THE SECRETARY OF STATE FOR EMPLOYMENT said that he had considered the possible courses put forward when the question of introducing the regulations had been discussed at Cabinet on 9 September, and his memorandum set out his views on their relative merits and practicality. At a meeting the previous day between the Secretaries of State for Education and Science, the Environment and Scotland, the Chief Secretary, Treasury, and himself, agreement had been reached on the areas where the wide disparity lay between the estimates of the Health and Safety Commission and the local authorities on the costs of implementing the regulations in the public sector. It had been agreed that a working group of officials should examine this question over the next six weeks with the aim of producing fresh estimates on an agreed basis. He would see that all the Departments concerned were represented on the working group. He proposed that future consideration by Cabinet should be deferred until these estimates were available. If this were agreed he proposed to inform the Trades Union Congress (TUC) of the Government decision, explaining that it arose from the difficulties in implementing the regulations in the public service area, and that these were being further examined. He hoped to be able to persuade the TUC to acquiesce in this with relatively muted protests.

The Cabinet -

Took note of the statement by the Secretary of State for Employment.

SEAMEN'S PAY SETTLEMENT

Previous Reference: CM(76) 23rd Conclusions, Minute 4

6. THE SECRETARY OF STATE FOR EMPLOYMENT said that the agreement reached the previous day between the National Union of Seamen (NUS) and the shipowners was a good one which most of that morning's Press had misrepresented. There was for example no truth in the suggestion that many seamen were receiving more than £6 per week in increased fringe benefits. The main increase was in line with the £4 limit. The only case where an increase above £6 a week had been conceded was that of the Merchant Navy Establishment Benefit or fallback pay, where the increase was £7.20 a week for adult ratings for the first two weeks' unemployment on leaving ship and £3.60 a week thereafter. This increase was in accord with the pay policy. Details of the agreement had been published by the National Maritime Board in

a Press Notice. In his view the worst feature of the settlement was the prior commitment to give additional leave in lieu of captive time as soon as pay policy permitted. This would weaken the general line against agreements to enter into prior commitments.

THE PRIME MINISTER, summing up a brief discussion, said that it was most important that the true facts about the settlement with the NUS should be made clear over the next few weeks. The Secretary of State for Employment should arrange for a speaking note to be prepared for Ministers, who should do everything possible to make the true position known.

The Cabinet -

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

2. Invited the Secretary of State for Employment to arrange for a speaking note to be prepared for Ministers on the lines indicated in the Prime Minister's summing up.

Cabinet Office

23 September 1976

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COPY NO 36

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 24th *Conclusions*, Minute 2

Thursday 23 September 1976 at 10.00 am

RHODESIA

Previous Reference: CM(76) 23rd Conclusions, Minute 1

The Cabinet *considered* a memorandum by the Foreign and Commonwealth Secretary (CP(76) 80) describing the diplomatic activity of the American Secretary of State, Dr Kissinger, in Southern Africa and a note by the Secretary of the Cabinet (CP(76) 81) covering a note by officials on proposals for financial inducements to persuade White Rhodesians to remain in the country after independence.

THE FOREIGN AND COMMONWEALTH SECRETARY said that Dr Kissinger began a further visit to Southern Africa on 14 September. After discussions with President Nyerere of Tanzania and President Kaunda of Zambia, and with their agreement, he had several lengthy meetings with the Prime Minister of South Africa, Mr Vorster, in which he explained his proposals for persuading Mr Smith to accept majority rule. As a result of these meetings, Dr Kissinger decided to see Mr Smith himself, which he had done on 19 September. Dr Kissinger had given Mr Smith a document setting out a five-point plan for establishing majority rule within two years, with the intention that this document should form the basis of an "offer" to be made publicly by Mr Smith. Dr Kissinger had told us that Mr Smith had undertaken, subject to consulting his Cabinet colleagues and his Party caucus, to make such an offer before the end of this week. Dr Kissinger had subsequently informed President Nyerere and President Kaunda of these developments. The latter had warmly welcomed them, but President Nyerere was still suspicious. It was uncertain what precisely Mr Smith would say: how the moderate Africans would react to his statement; whether they would be able to restrain the guerrillas: and whether the Black African Opposition could put forward a united front. It was therefore too early to say whether we were nearing a solution. We had maintained contact through our Ambassadors with the African leaders and Dr Kissinger had briefed our Ambassadors fully. A Foreign and Commonwealth Office official had also travelled with his party. Care had been taken to avoid accepting any commitment which the Cabinet would not be

prepared to underwrite, and this had caused some irritation to Dr Kissinger. We had made it clear that any British commitment would be contingent on the achievement of Black majority rule within a maximum of two years, and that any settlement must have the support of at least three of the African Presidents. In the course of his discussions Dr Kissinger had nevertheless gone somewhat beyond what had been agreed with him during his last visit to London at the beginning of September, in particular as regards the formulation and status of the five points in the document he had given to Mr Smith. We saw this document as no more than a basis for Mr Smith's statement, and we were not committed to it. Dr Kissinger had however seen it in terms of a commitment, provided it was accepted by Mr Smith. While not what we had intended, and while in the light of our experience of previous negotiations with Mr Smith we were bound to be sceptical about his apparent change of heart, it was also important that we should not be put in the position of scapegoats in the event of a breakdown or appear not to be giving full support to the Americans in this important initiative. We were playing for high stakes and this was probably the last chance of a settlement. Breakdown would have serious consequences involving hostilities in Southern Africa. He hoped that when they came to discuss the financial paper, his colleagues would be prepared to accept some risks in view of the major importance of reaching a solution. He and the Prime Minister would have an opportunity to seek further information from Dr Kissinger at a meeting later that day.

In discussion it was strongly argued that there were grave risks of our getting involved in the wrong way. Events in Southern Africa could develop in such a way that we would find ourselves supporting Whites against Blacks. Dr Kissinger was obsessed with the idea of Communism spreading in Southern Africa and wanted to prevent another Angola. It was in Mr Vorster's interest to exploit this fear and thus to reduce pressure on South Africa. It was suggested that this fear was exaggerated and that no Black African Government, however much Communist support it received in order to achieve power, would remain loyal to its Communist backers. It was important that we should not find ourselves on the wrong foot in the event of a breakdown. Although we had constitutional responsibility for Rhodesia, we must avoid appearing to legitimise an unviable interim arrangement. If, in accordance with Point 4 of the document given by Dr Kissinger to Mr Smith, we had to enact enabling legislation for the process towards majority rule, there was a risk that in the event of a breakdown we would find ourselves in a position similar to that before the unilateral declaration of independence (udi) and be once again fully involved in Rhodesia. There were many snags ahead and it was possible for the process to break down at any stage. While the State Department were behind the proposals, there was no evidence of popular interest or support in the United States or that Congress would

be willing to provide the finance. So it could not be guaranteed that, if things looked like going wrong, the Americans would remain involved. We should therefore need to proceed with extreme caution if we were to avoid being landed with sole responsibility.

It was argued, on the other hand, that, while the dangers were real, it was not possible to overlook the history of the past eleven years. Our interest was a long-standing one. We had a debt of honour to the black people of Rhodesia which would be paid by giving them majority rule. In any case we retained juridical responsibility under the Rhodesia Act and even now some of the Black African leaders were asking us to call a constitutional conference. We could not evade our responsibilities even if we wished, although the risks involved were considerable. It was true that Dr Kissinger was unlikely to be in office by next February and there was therefore some risk that after his departure American commitment to the proposals might weaken. But it might be expected that a new Secretary of State, even a Democratic one, would wish to capitalise on the efforts Dr Kissinger had made and start his period in office with a major political success in Africa.

In further discussion it was pointed out that the proposal with regard to United Kingdom legislation in the document handed to Mr Smith was imprecise. There could be no question of our negotiating with Mr Smith or doing anything to legitimise his regime. Any legislation should be enacted only at the end of the process of discussions between the Rhodesian authorities and the Black leaders, in order to provide for the transfer of constitutional power. We should seek to avoid a situation where in the event of a breakdown during the period of the interim government, we were left with the same responsibilities as we had before udi. It was however argued that, while legislation would be needed at the end of the process in connection with the establishment of an independent Rhodesian Government on the basis of majority rule, some initial legislation would also be required in order to provide the interim government with adequate powers and to terminate sanctions. Thus we would not be able to avoid at least some legislative action at the beginning of the process; this stemmed from the constitutional and juridical position. The precise legislative requirements required further study.

THE PRIME MINISTER, summing up this part of the discussion, said that we should continue to encourage and support Dr Kissinger in the very considerable efforts which he had made to achieve a settlement. It was of the utmost importance to obtain such a settlement if possible. We should not, however, allow ourselves to be unduly influenced by the euphoria expressed by him and privately by some of the Africans. There were serious risks in the present position and even if Mr Smith's reactions were favourable there was still much which

might go wrong. We should therefore proceed with extreme caution to avoid being once more saddled with responsibility for Rhodesia in the event of a breakdown. In the talks with Dr Kissinger, in which the Lord President of the Council, the Lord Chancellor and the Chancellor of the Exchequer would accompany the Foreign and Commonwealth Secretary and himself, we should make it clear that we were not formally committed to the document he had given to Mr Smith and that the Cabinet would wish to look again at the details when Mr Smith's definitive reaction and those of the African Presidents were known. He hoped that the Cabinet would give the Foreign and Commonwealth Secretary and himself discretion to act within the general framework of the cautious approach which he had outlined. Meanwhile, in preparation for the meeting with Dr Kissinger, clarification of the legislative requirements should be obtained.

The Cabinet -

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

2. Invited the Lord Chancellor, in consultation with the Foreign and Commonwealth Secretary, to prepare a study of United Kingdom legislative requirements.

THE FOREIGN AND COMMONWEALTH SECRETARY, introducing the note on financial inducements (CP(76) 81) said that both we and the Americans had recognised that any settlement must contain inducements to the White Rhodesians to stay after independence, particularly people on whom the Zimbabwe economy would depend, eg civil servants and farmers. Initial proposals for this purpose were referred to as "the Rogers plan". He did not know how much Dr Kissinger had said to Mr Smith about this plan or whether the latter would make something on these lines a condition of his constitutional offer. More information about the Rhodesian economy was required before decisions could be taken. As a first step, it was proposed that preliminary official level discussions should take place next week in Washington. These would be without commitment and ad referendum to Ministers, but British officials should adopt a positive approach to the problem. He was seeking the approval of his colleagues to the note as a basis for instructions to the British officials taking part in the Washington discussions. It was clear that the United States would have to make a major financial contribution and Dr Kissinger had mentioned a figure of 50 per cent. If our contribution was limited to 15 per cent, there would be a further 35 per cent to find. Preliminary reactions of President Giscard of

France and Chancellor Schmidt of Germany had not been unfavourable and the Prime Minister of Canada, Mr Trudeau, had told the Prime Minister that he thought the Canadian Government would also contribute. So he was not too pessimistic about the prospects.

In discussion the following points were made -

a. Our financial contribution must be contingent on the rest of the money being forthcoming, including Congressional support for an American contribution of 50 per cent. Dr Kissinger could not commit Congress and it was unlikely that the latter would take a decision before the summer of 1977 at the earliest.

b. The United Kingdom should not take the lead in collecting contributions. This should be done by the United States. It would be prudent to put our position in writing to Dr Kissinger.

c. The United Kingdom contribution would have to be met within the existing public expenditure limits. In view of the importance of what was at stake an annual contribution of £15 million or a contribution of 15 per cent, whichever was the less, might be accepted as a charge on the aid programme.

d. No commitment should be undertaken which might involve the use of British forces in Rhodesia at any stage. Any military operation was totally impossible.

THE PRIME MINISTER, summing up this part of the discussion, said that at the talks in Washington the following week the official team should be guided by the note and the points made in discussion. These talks would be ad referendum and no commitment would be entered into. Ministers would wish to consider proposals in detail in the light of the team's report. The Treasury should be represented in the team for the Washington talks as well as the Foreign and Commonwealth Office and the Ministry of Overseas Development.

The Cabinet -

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

Cabinet Office

24 September 1976

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CM(76) 25th Conclusions

COPY NO 76

CABINET

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

THURSDAY 7 OCTOBER 1976

at 10.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

Mr Edward Rowlands MP
Minister of State for Foreign and Commonwealth Affairs (Item 2)

SECRETARIAT

Sir John Hunt
Mr W I McIndoe (Item 1)
Mr D le B Jones (Item 3)
Sir Clive Rose (Item 2)
Mr J A Marshall (Item 3)
Mr A D Gordon-Brown (Item 1)
Mr C Wilson (Item 2)

CONTENTS

PARLIAMENTARY AFFAIRS

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

THE CHIEF WHIP said that requests had been made for special debates on the economy and on Rhodesia. It would in any event be necessary to obtain an Affirmative Resolution before the end of the Session on the Order renewing the Southern Rhodesia Act 1965. He understood from the Foreign and Commonwealth Office that this Order would not be ready before 1 November, and the Opposition had said that they would be prepared to take the Order without debate if there had been any earlier general debate on Rhodesia. But if the Order could be available earlier it might be preferable to combine a general debate with the debate on the Order.

THE LORD PRIVY SEAL said that the House of Lords had been sitting late every night and were now faced with too many Bills - nearly all of them unpopular - to be taken through in too little time. He would do all that he could, but there were only 29 days of the Session left whereas 35 days were needed; and he did not see how he could get all these Bills through by the end of the Session.

In discussion it was suggested that the Health Services Bill was the one most at risk, and that the former Lord Privy Seal had said in July that if this Bill did not reach the Lords until after 11 October there would be a serious danger of its being lost. It was argued, however, that the loss of this Bill would deal a severe blow to the maintenance of good industrial relations in the Health Service, which was already difficult; and that it would be necessary to weigh very carefully whether it would not be better to extend the Session, at the expense of a Bill in next Session's programme, rather than to lose one of the present Session's major Bills which had already made considerable progress.

THE PRIME MINISTER, summing up the discussion, said that the question of a general debate on the economy would be considered further under the third item on the agenda. There appeared to be a good case for bringing forward the Order renewing the Southern Rhodesia Act 1965 earlier than 1 November, and this possibility should be pursued. The discussion on the completion of the Session's legislative business would be resumed next week when the Lord President of the Council had returned from India, and the Cabinet were reaching no decisions now except to confirm that the remaining Commons Stages of the Health Services Bill would be taken next week. The crowding of contentious legislation at the end of the present Session was a lesson for the future, and it would be necessary to be very tough in keeping down the size of next Session's programme. There was, however, already a considerable amount of essential legislation which would have to be taken through early next Session, and the decision

which had just been announced to start the new Session on 17 November was a firm one and not open to reconsideration. No-one was advocating the loss of the Health Services Bill, but in assessing this Bill's prospects it was necessary to face the realities, which were that the matter was not wholly within the hands of the Government and the Lords were very short of time. This was the Bill most at risk because it was the only one of the Government's major and contentious Bills still in the House of Commons, whereas all the other Bills of this kind had already made some progress in the Lords. But for the present the Government should proceed with all the remaining Bills and see how they progressed.

The Cabinet -

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

RHODESIA

Previous Reference: CM(76) 24th Conclusions, Minute 2

2. THE MINISTER OF STATE FOR FOREIGN AND COMMONWEALTH AFFAIRS said that during his recent tour of Southern Africa he had seen President Kaunda of Zambia, President Seretse Khama of Botswana, President Machel of Mozambique and President Nyerere of Tanzania as well as Mr Nkomo and Bishop Muzorewa. He had also visited Salisbury where he had seen Mr Ian Smith and representatives of various Rhodesian groups who had asked to see him. He had been accompanied by Mr Schaufele, the United States Assistant Secretary for African Affairs, who had been able to clear up misunderstandings which had arisen over the status of the five points. All concerned accepted the need for a conference to start as soon as possible for the purpose of establishing an interim government and, with the possible exception of Mr Mugabe, whom he had not seen, that no pre-conditions should be laid down by the participants. The Africans were deeply suspicious of the five points and would certainly press for major changes. Mr Smith on the other hand would try to insist that the five points should be maintained as a package, although in reality he probably accepted that there would have to be some negotiation about them. As regards participation, Mr Smith did not want the other White Rhodesian Parties, which had no seats in Parliament, to be represented. The Rhodesia Party had of course 18 per cent of the vote: but the Minister of State had not been impressed by Mr Gibbs and the Foreign and Commonwealth Secretary had reached no final view on this point. On the African side, we should wish to invite Mr Nkomo, Bishop Muzorewa and probably also Mr Mugabe. As regards venue, although all would have preferred a meeting in Southern Africa no one location was generally acceptable and a consensus had emerged in favour of Europe. The Swiss authorities were being asked about the possibilities of Geneva. The Foreign and Commonwealth Secretary hoped it might be possible to start the meeting during the week beginning 18 October. He might decide to make an announcement on 8 October or possibly to postpone this until he could make a statement in Parliament early next week.

In discussion it was pointed out that one of the problems which would arise was Mr Smith's wish to retain as much personal influence as possible. His insistence on defence and law and order remaining in white control would be strongly resisted by the Africans and the impression in Salisbury was that he wanted to play a major role, possibly as President of the Council of State, in the interim government. This would be unacceptable to the Africans: but Mr Smith was in practice probably the only man who could deliver the White Rhodesians.

The British position at the meeting would be a very delicate one. The Africans, especially President Nyerere, had accepted that it was not possible to move direct to a full-scale constitutional conference,

and that it would be necessary to adopt the two-stage approach we had proposed: but they wanted us to play an active rather than a neutral role at the meeting, and might press us to appoint a Governor-General during the interim government. Our task would be to allay African suspicions, to keep the Europeans moving but at the same time to avoid any involvement which would leave us with implied or actual obligations which we could not discharge. We should take the line that the five points represented a reasonable basis for establishing an interim government: but our only commitment was to the achievement of majority rule within two years.

It was suggested that Mr Smith's concern that sanctions should be lifted and the guerrilla war ended could create difficulties for us. The timing of action to meet these concerns was important. The first task was to get an interim government established. Once this had been achieved we could take legal steps to transfer powers to it. Only at that point would the question of lifting sanctions arise. While we had no direct control over the guerrilla leaders, those who wished to continue the war would find they were fighting their friends, as members of the interim government. If this happened the interim government might appeal to us for help. Difficulty would also arise if the interim government broke down and the Africans withdrew, but we would have to consider this situation if and when it arose.

THE PRIME MINISTER, summing up the discussion, said the Cabinet would wish to thank the Minister of State for Foreign and Commonwealth Affairs for what he had achieved on his recent tour. There were many difficulties that could arise at any stage in the process. But the risks of failure were very great and we must make every effort to achieve success. We should need to maintain regular contact with the African Presidents throughout the process. We must be free to disengage, but we should not be in any hurry to do so. He had every confidence in Mr Richard's ability as chairman. As regards legislation, the first requirement would be for affirmative approval in Parliament of the annual Order in Council renewing the 1965 Act, which would have to be given before Prorogation. Orders would subsequently be needed to legitimise the interim government and to revoke sanctions, but the timing of these would depend on progress at the meeting. No decisions were required from the Cabinet at this stage, but there would be further opportunity for discussion as the situation developed.

The Cabinet -

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

THE ECONOMIC SITUATION

3. The Cabinet discussed the economic situation. This discussion is recorded separately.

Cabinet Office

7 October 1976

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COPY NO 36

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 25th Conclusions, Minute 3

Thursday 7 October 1976 at 10.30 am

THE ECONOMIC SITUATION

THE CHANCELLOR OF THE EXCHEQUER, reviewing developments in the last two or three months, said that the background to the present difficulties was the need to get the economy into balance without social breakdown. The country had large internal and external deficits, which had to be financed by borrowing; and any fall in the sterling exchange rate exacerbated the problems. In June the Group of Ten had made available a standby facility of $5,300 million. Of this, $1,100 million was drawn and spent in June, as a result of which the exchange rate rose from $1.71 to $1.78. By the early part of September the rate was still at $1.77, but there had been no reflux of funds on the scale hoped for, and substantial pressure on the rate then developed. Heavy spending through intervention failed to hold the rate, and it was decided to stop intervening in the market, as a result of which the rate fell some 3-4 cents and then fluctuated around $1.73. A further $500 million of the June standby was drawn during September, making a total drawing of $1.600 million, in order to prevent the United Kingdom reserves from going below $5,000 million. On 24 September the rate dropped below $1.70, and plummeted down on 27 and 28 September, the first two days of the Labour Party Conference, falling as low as $1.63. After consulting the Prime Minister he announced the Government's intention to apply to the International Monetary Fund (IMF) for the United Kingdom's full entitlement on all unused credit tranches, which would total $3,900 million. This steadied the rate which today was around $1.65.

The authority he had previously had from the Ministerial Committee on Economic Strategy to apply for an IMF drawing had been on the understanding that this would be negotiated on the basis of the Government's existing policies. This made it all the more important that the Government should be seen to be keeping within the targets for domestic credit expansion and for the growth of money supply in 1976-77 (about £9,000 million and 12 per cent respectively) which had been announced. However, in the period between mid-July and

mid-September the Government had been unable to make any net sales of gilt-edged securities, with the result that the money supply figures for those months were very bad. He had therefore called for special deposits of 1 per cent by the banks; and the Minimum Lending Rate (MLR) had been increased by $1\frac{1}{2}$ per cent. Subsequently there was a dramatic reversal in gilt-edged sales, and in the week ending 24 September sales had totalled £1,000 million. The hope of further large sales of gilts in the following week had however been destroyed by the fall in the exchange rate. Moreover, there had been very heavy bank lending in September, much more than had been expected, and this, combined with the failure to sell gilts before the week ending 24 September, meant that the figures to be published on 18 October of money supply would be very bad indeed (the sales of gilts would only show up in the following month's figures). There was some evidence that the bank lending was financing leading and lagging as well as the advance purchase of imports undertaken from fear of a further fall in the sterling rate or the imposition of import controls.

In his view this situation could only be dealt with by the application of a sharp monetary squeeze. The Bank of England would therefore that day be calling for a further 2 per cent of special deposits; and the MLR would be increased by a further 2 per cent. These were unpleasant measures to have to take but he hoped that against this background it would be possible successfully to launch a further tap stock. In private meetings which he had had with a United States Minister he had been under pressure to take action on the money supply; and it was clear from talks which Sir Douglas Wass had had in Manila with Mr Simon, the United States Secretary of the Treasury, and Mr Witteveen, the Director General of the IMF, that the negotiations on the drawing for which the United Kingdom had applied would be tough and difficult. Nevertheless he believed that they would be successful as long as the Government was seen to be sticking by its announced policies. If negotiations could not be concluded on this basis, he would consult his colleagues further in the Ministerial Committee on Economic Strategy.

In discussion it was argued that the course which had been followed since June did not constitute a coherent strategy. Events had in fact taken over. Some members of Cabinet had warned that, in spite of the steps announced on 22 July, it would still be necessary to go to the IMF; and so it now proved. The further call for special deposits and the increase in the MLR, although they might help the exchange rate, would have grievous effects on the Government's economic and industrial strategy which was aimed at switching resources into manufacturing industry. The political repercussions could also be serious, and it would be essential to discuss what strategy should now be followed. If the Conservative policy was to take a cleaver to public expenditure, it appeared that the Chancellor of the Exchequer's

policy was to take a cleaver to money supply. The public would not accept continuing high unemployment when alternative policies were available, and it was essential that Ministers should consider the opportunities for restricting imports which were available under the General Agreement on Tariffs and Trade. The truth was that the economy was bleeding to death, and that only the adoption of a protectionist policy could save the situation. Both monetarist and protectionist approaches were respectable views to hold, and the alternative policies they offered should be considered. It had been argued that to go half-way towards protection was no good, and that only full protection for a prolonged period was any use. By the same token it could be argued that recent events, with repeated nibblings at monetary policy, were equally a half-way house, and that it would be better to go all the way in the kind of spasm advocated by the Conservative Party. There was nothing in the protectionist alternative which was not compatible with the view that the country should live within its means. What was clear was that a monetarist approach was incompatible with the Government's industrial strategy, and would destroy it. The Government would pay the price for a drift towards monetarism in terms of unemployment, worsening relations with the trade unions and a lost election. The country would be more willing to support a protectionist policy. Fiscal measures might be needed within such a policy but there would be a choice between cuts in public expenditure and increases in taxation. Protectionism had been described as a siege economy; but if this was the case, it would be preferable to have the trade unions inside the citadel during the siege rather than the international bankers. It would not be possible to win the support of the people of the country for policies which were needed simply to satisfy bankers. Protectionism was not an easy course and would involve sacrifices; but it presented the best way to gain the support of the British people.

In further discussion it was argued that it would be wrong to dub the present policy as one of monetarism. The truth was that, with high public expenditure, the Government had a high public sector borrowing requirement, and this could only be sustained by high interest rates when the Government had to borrow in a competitive market. The real question was whether the present and prospective level of the public sector borrowing requirement was sustainable. High interest rates inevitably hit investment, and it was therefore to be hoped that the new level of MLR would be only temporary. In considering the question of alternative strategies, the key was the Government's desire to maintain the present level of public expenditure. While it was questionable whether that level could be sustained with the present mix of policies, further cuts would certainly be just as necessary with a protectionist policy as they might be on present policies. Protectionism was a respectable philosophy, but only where it could be applied without doing damage to the national interest. It

had to be remembered that the general level of exports in the current year was 10 per cent up in volume terms on the previous year; and that in some sectors - eg chemicals - the increase was twice that much. Far more manufactured goods were exported than imported, and those exports would be put in grave jeopardy if protectionist policies, incurring the risk of retaliation, were adopted. Massive protection would be self-defeating. In 1964 the then Labour Government had introduced a 15 per cent import surcharge, and the international pressure from the countries in the European Free Trade Area had been such that within four months the Government had been constrained to reduce the figure to 10 per cent. Much of the country's current difficulties derived from the fact that it was widely believed that the Government was on the edge of adopting either import controls or, as the Trades Union Congress urged, import deposits. As a result, borrowing from the banks had been increased by those anxious to forestall such developments. It was probably not possible wholly to dissipate this impression, but there was a case for the strongest possible public statement making it clear that general protection was not the Government's policy.

In continuing discussion it was argued that alternative policies needed to be discussed because current policies were not working. It was not surprising that cuts in public expenditure had received a bad reception at the Party Conference. The Government was in danger of moving step by step towards the philosophy of Milton Friedman and the policies of the Conservative Party. A Labour Government could not survive without the support of the trade unions; but the trade union leaders needed to see the Government's policies working. Against this it was pointed out that it would be wrong to identify the protectionist versus monetarist argument with the Socialist versus Conservative argument. The Government did in fact have a strategy - the industrial strategy was proceeding through the sectoral studies under the auspices of the National Economic Development Council, and this was now moving to the point where discussions would take place in a wide range of firms. Selective protection for some industries such as shipbuilding might be necessary in support of that strategy. Industrial regeneration was absolutely fundamental to the Government's policies and represented the only way out of present difficulties. The crucial need was to gain time and consideration should be given to how we could secure longer-term backing for the sterling balances.

It was true that the monetary measures which would be announced that day would set the industrial strategy back to some extent; but that did not mean that the strategy was not working, only that the effects of extraneous factors, including an undervalued currency, would have to be overcome. It was noted that ten years previously it had been argued that if the Government would depreciate the pound and allow the rate to float, all problems would be solved. In the same way it was now

suggested that the imposition of import controls would solve all problems. It was however to be noted that the Trades Union Congress was not asking for the adoption of a generally protectionist policy, which could severely cut the exports upon which their members depended. The question was not one of ideology but which course would best help the country in its present economic position. A situation could arise in which the Government was faced with a choice between a high public sector borrowing requirement, requiring high interest rates which affected industry adversely, or alternatively a lower borrowing requirement, which could only be achieved by adjustments in fiscal policy.

On the question of presenting the Government's policies, it was suggested that steps should be taken to ensure that a clear statement of the Government's determination was necessary when Parliament reassembled the following week. One possibility would be to have a debate of a general character until 7.00 pm on the basis of the Counter-inflation Price Code Order; but it seemed possible that the Opposition might refuse this and prefer a full debate running until 10.00 pm. This could take place on a Motion for the Adjournment, and the opposed Private Business which had been put down for 7.00 pm on Monday could be moved to a day later in the week. The importance of the vote for the Government would require a three-line Whip, although, since Members were only expecting a one-line Whip on that day, those who were abroad would have to be recalled.

THE PRIME MINISTER, summing up the discussion, said that the Government had to live through a period of little confidence in the British economy and to take the action necessary to restore confidence and get the economy moving again. He was in close and frequent touch with President Ford and Chancellor Schmidt, both of whom had been very helpful in making statements to assist the pound which was clearly undervalued. He would be probing further possibilities with Chancellor Schmidt in the near future. The need to call for more special deposits and to increase the MLR was unwelcome to all of them because of the adverse effect, although hopefully only temporary, which it would have upon the industrial strategy. With the pound standing at $1.65 the Government's inflation target would be seriously affected, and the only hope they had of carrying their policy through and reaping the fruits of the industrial strategy depended upon their standing firmly together. The Chief Whip would consult the Opposition on the question of a day's debate on the economic situation the following Monday, on a Motion for the Adjournment. Given the fact that the life of the Government would be at stake, a three-line Whip would be essential. A meeting of the Parliamentary Labour Party should be held later in the week in the normal way. The Ministerial Committee on Economic Strategy had already had full discussions on alternative policies; and further

analytical work was in hand on the basis of which these discussions would continue. One of the causes of the present uncertainty was however the belief that the Government was contemplating the adoption of a protectionist strategy. On the basis of present information the majority of the Cabinet were against such a course: and unless and until any change of policy were agreed it was essential that all such internal discussions should be kept strictly private. In public this would mean individual Ministers subordinating their personal views in the wider interest of the Government presenting a united and determined front, but unless this happened those who wanted an alternative strategy would be liable to find that they were arguing for it from the Opposition benches. The Chancellor of the Exchequer bore a heavy burden with resolution and deserved their full support in the face of the many pressures upon him.

The Cabinet -

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

Cabinet Office

8 October 1976

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CM(76) 26th
Conclusions

COPY NO 76

CABINET

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

THURSDAY 14 OCTOBER 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 Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon David Ennals MP
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The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
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The Rt Hon John Silkin MP
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The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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 W I McIndoe (Items 1 and 4)
Mr D le B Jones (Item 3)
Sir Clive Rose (Item 2)
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 CHIEF WHIP said that the week beginning 8 November would be a difficult one, when Lords amendments to major Bills would be considered, and it was important that there should be no unpaired absences on any day that week, including Friday, 12 November.

THE LORD PRIVY SEAL said that he had had informal consultations with the Opposition in the House of Lords, who understood the problem of time facing the Government in completing the legislative programme. He had made clear to them the Government's intention to get all their legislation through, and would do his best to achieve this.

THE PRIME MINISTER, summing up a brief discussion, stressed that everything possible should be done to get the Health Services Bill, as well as the other remaining major Bills, to Royal Assent by the end of the Session.

The Cabinet -

Took note.

FOREIGN AFFAIRS

Rhodesia

Previous Reference: CM(76) 25th Conclusions, Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that it seemed certain that the three Black African representatives he had invited, Mr Mugabe, Bishop Muzorewa and Mr Nkomo would attend the Geneva Conference, although Mr Mugabe was still pressing for postponement of the starting date. He was willing to consider a short postponement if necessary, but would await the advice of Mr Grennan, his Adviser on African Affairs, who was at present in Southern Africa, both on this point and also on the question whether Mr Sithole should be invited to attend. He had seen Mr Rodgers, United States Under Secretary of State, yesterday in order to bring him up to date about our plans. Mr Rodgers had come straight from a talk with Mrs Thatcher. This was contrary to the advice he had given to Dr Kissinger in response to a direct enquiry from the latter and was only likely to create further difficulties. But he understood from Dr Kissinger, to whom he had spoken subsequently, and who had apologised, that the call on Mrs Thatcher had been a private initiative on the part of Mr Rodgers.

THE LORD PRESIDENT OF THE COUNCIL said that there would be a general debate on Rhodesia on the Motion for the Adjournment on 20 October, and this would be followed by a debate on a Motion approving the Order to renew the 1965 Act.

The Cabinet -

Took note of the statements by the Foreign and Commonwealth Secretary and the Lord President of the Council.

PROGRAMME ANALYSIS AND REVIEW

Previous Reference: CM(76) 6th Conclusions, Minute 4

3. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 82) covering a memorandum by the Chief Secretary, Treasury, assessing the value of the Programme Analysis and Review (PAR) system.

THE CHIEF SECRETARY, TREASURY, said that the Cabinet had asked for this assessment at their meeting on 20 May. The assessment by officials was annexed to his memorandum, and he had concluded that it would be worth continuing with the PAR system on the modified basis suggested in paragraphs 8 and 9 of his paper. He was clear that studies of the kind conducted under the PAR arrangements were necessary for a number of reasons. There was advantage in the opportunity the system provided of an annual stocktaking of studies in progress and planned to be started. It was helpful that central Departments - the Treasury and the Central Policy Review Staff - were involved in the studies, and that the results were considered collectively by Ministers. The distinction between PAR studies and non-PAR studies was somewhat artificial, but he was inclined to keep the PAR label, since if it were dropped there might be exaggerated criticism of the significance of the change. The object of the system should be to choose subjects for study which would be helpful to Ministers in the furtherance of their policy aims. On disclosure, it would in his view be desirable to disclose all the factual information possible but to retain flexibility on the question of publishing recommendations, since it might well not always be wise to make public the internal advice which had been offered to Ministers.

In discussion the justification for a different status for PAR studies was questioned. There was a risk that Parliamentary Committees might imagine that PARs were in some way greatly superior to normal interdepartmental studies, and that they would press to see them before Ministers had considered the advice they contained. For this reason it would be better to drop the name of PAR, which was in any case only a gimmick of the last Conservative Government, and revert to the normal arrangements which had obtained previously for interdepartmental studies. It was noted that, as the assessment by officials made clear, most PAR studies would have been put in hand whether the PAR system had existed or not; and some major reviews were still conducted quite independently of the PAR arrangements. What was important for Ministers was that there should be an annual stocktaking at which they could scrutinise the proposed programme of studies so that a higher degree of political input could be provided to ensure that when the studies were done they were more closely related to the problems with which Ministers were concerned. It would also be desirable for PAR studies to take more account than at present of work which had been done under Party auspices, perhaps before the Government came to power. It might indeed be desirable for the Cabinet to discuss from time to time the general policies of a

particular Department. However not all PAR studies were of equal political interest. Civil servants often produced proposals for studies which dealt with important administrative questions; and although these might be of small political significance, such work was not something to be discouraged. The most recently circulated PAR - on Incentives in Regional Policy - was itself a good example of what a good PAR report could do on a subject which crossed the interests of many Departments. It came to no hard and fast conclusions, but set out the options and left Ministers to take decisions.

In further discussion it was argued that while it would be acceptable to publish the factual material contained in PAR studies, it would be unwise to make any commitment about publishing that part which contained recommendations to Ministers. For this reason it would be best not to publish a list of the subjects which were being studied as PARs. It was true that, as long as the PAR system was retained, Parliamentary Committees would press to be informed of studies in train and to see the results: but this was pressure which would have to be resisted. The increasing number of documents which were leaked to the Press made it desirable that the Government should publish as much material as possible, keeping only the minimum as confidential - although it was argued conversely that it was not always helpful to publish papers when policy was still in process of formulation.

THE PRIME MINISTER, summing up the discussion, said that the general view in Cabinet was that the PAR system, modified in the way proposed in the paper by the Chief Secretary, Treasury (CP(76) 82) to cover all major ongoing and planned reviews, should continue. The way the system should work would be for officials to put forward a programme of possible studies, but for decisions to be taken by Ministers. There might perhaps be more discrimination in the subjects chosen for study. The PAR title should also be retained. On the question of disclosure, there was broad agreement that, while the factual material in PAR studies could normally be published, it would be desirable to retain flexibility over the question of publishing the remainder of the material, and each case would need to be judged on its merits. In any case disclosure should not take place until after Ministers had had an opportunity to consider the study. The Chief Secretary's paper had sought approval for the studies which were listed in Annex I to CP(76) 19 as already in progress or due to start in 1976 to go ahead as planned; and while there was no desire to stop studies already in progress, the view of Cabinet was that no further studies should be started in 1976 until the Cabinet had had an opportunity to consider a stocktaking paper. The Chief Secretary, Treasury, should therefore bring forward such a paper in November or December with a view to enabling Cabinet to agree upon a 1977 programme of studies on the basis set out in CP(76) 82.

The Cabinet -

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

2. Invited the Chief Secretary, Treasury, to circulate a stocktaking paper proposing a programme of Programme Analysis and Review studies for 1977.

SMOKING AND HEALTH

4. The Cabinet considered a memorandum by the Secretary of State for Social Services, the Secretary of State for Scotland and the Secretary of State for Wales (CP(76) 83) on the use of the Medicines Act 1968 to control smoking.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that the Government had a clear commitment to bring tobacco additives and substitutes within the scope of the Medicines Act. To fail to do this would not only be a retreat from this commitment and from the agreement reached with the major part of the tobacco industry but would lose the Government the opportunity to secure voluntary agreements with the industry covering a wide range of matters, relating to changes in the composition of cigarettes, more precise health warnings and control of advertising, which would play a major part in furthering the Government's policy. In order to secure these agreements, however, it would be necessary for the Government to negotiate from a position of strength. The Minister of State, Department of Health and Social Security, had announced in January that the Government would introduce statutory controls, under the Medicines Act, on tobacco additives and substitutes, while control of tobacco products as such would be the subject of voluntary agreements with the industry. This approach had received wide support from the industry, the only challenge coming from British American Tobacco which commanded an insignificant share of the market. A further reason for taking early action was that the fiscal legislation, which was at present used to control additives and substitutes, would cease to be available from the end of December 1977 in order to comply with the European Economic Community Directive on the harmonisation of tobacco duty. If no control were substituted for this legislation, there was a real risk that importers and manufacturers would bring additives and substitutes on to the market; and it was inconceivable that the Government should allow this to happen without establishing machinery to avoid the hazards to health which would undoubtedly exist. The question therefore was not whether the Government should take statutory action but what form that action should take. He did not propose legislation to control tobacco products as well as additives and substitutes. The choice, in his view, lay between making an Order under the Medicines Act and accepting the risk of legal challenge, which had always been recognised, or taking powers to bring additives and substitutes indisputably within the scope of the Medicines Act. This would be a short measure which he proposed should be added to the Bill to recoup the costs of road accidents.

In discussion there was general agreement that to proceed by means of an Order which was known to be of doubtful validity would entail a real risk of challenge in the courts and would expose the Government to a good deal of criticism, with consequent loss of prestige, particularly in the light of the recent Tameside judgments. It was also generally agreed that to bring tobacco as such within the scope of the Medicines Act would give rise to an unacceptable degree of controversy as well

as causing alarm to those employed in the industry. If legislation were introduced, therefore, the Government should resist any amendments designed to widen its scope to include tobacco. There were however major difficulties about introducing legislation in the next Session of Parliament, when business would be exceptionally crowded. Preliminary consultations with Parliamentary Counsel had indicated that even if it were technically possible - and there appeared to be considerable doubt about this - to tack on the necessary provisions to the Bill on the recoupment of road accident costs, the resulting measure would be open to wide amendment. The Bill would in any case be controversial and the additions to it would be likely to amount to a major new legislative undertaking which might involve the displacement of some other Bill. There was already a danger of overloading next Session's programme by the expedient of tacking provisions on to Bills already approved, and the pressure for this should be resisted.

In further discussion it was suggested that, although it was in principle undesirable to enter into forward commitments of this kind, the best compromise in the circumstances might be to promise legislation for the following Session. This should be enacted within a short time of the expiry of the existing fiscal legislation; and the undertaking to introduce it need not exclude the possibility of proceeding earlier by means of a suitable Private Member's Bill, which the Government might well be able to arrange. However, to enable the Government in the meantime to pursue effective negotiations with the industry on voluntary agreements for tobacco, the undertaking to legislate, no later than in the 1977-78 Session, on additives and substitutes would have to be very firmly stated. It was for consideration whether the Government's proposals for legislation should be set out in a White Paper. It was doubtful however whether it would be appropriate to refer to them in The Queen's Speech for the opening of the next Session.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Government's commitment to introduce statutory control over tobacco additives and substitutes should be carried out by means of primary legislation putting use of the Medicines Act beyond doubt and that the Government should announce a firm intention to introduce the legislation early in the 1977-78 Session. This need not preclude earlier legislation by means of a suitable Private Member's Bill. He would consider further with the Secretary of State for Social Services the timing and manner of this announcement which he might himself make in the Debate on the Address. Meanwhile the Secretary of State for Social Services would examine the suggestion that the Government's proposals might be set out in a White Paper. The Secretary of State for Energy had raised the wider question whether the time was ripe for a fundamental review of the tobacco industry and of its economic and social role; if he wished at some stage to provide a paper setting out his thoughts, he would arrange for it to be considered by an appropriate group of Ministers.

The Cabinet -

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

Cabinet Office

14 October 1976

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CM(76) 27th Conclusions

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CABINET

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

THURSDAY 21 OCTOBER 1976

at 10.00 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

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 Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

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

The Rt Hon Stanley Orme MP
Minister for Social Security

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General (Items 1 - 3)

The Rt Hon 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 5)
Mr D L Pearson	(Item 5)
Mr W I McIndoe	(Item 1)
Mr D le B Jones	(Items 2 - 4)
Mr J A Marshall	(Item 2)
Mr A D Gordon-Brown	(Item 1)
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.

Illness of the Lord President

THE CHIEF WHIP said that, while the Opposition would see no objection if he were to make the business statement in the absence of the Lord President on a single occasion, they had indicated that they would not think it appropriate that he should perform Leader of the House duties in addition to those as Chief Whip, over a period which might extend to several weeks.

THE PRIME MINISTER, summing up this part of the discussion, said that he understood the Opposition's viewpoint that the business statement should be made by a senior Cabinet Minister if the Leader of the House was absent for any extended period of time, and he would be grateful if the Home Secretary would make the statement.

The Cabinet -

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

Progress on the Legislative Programme

THE SECRETARY OF STATE FOR TRANSPORT said that it had not been possible in the previous week to complete the Commons stages of the Road Traffic (Seat Belts) Bill as planned, because, although it was a Government Bill, it was not being whipped and it had some determined opponents who had held up progress. This Bill had received overwhelming support on the Government side on Second Reading, and it would save human lives as well as money. If it did not reach Royal Assent this Session, there would be strong pressure to reintroduce it next Session, when the legislative programme was already very crowded. He would accordingly like a day to be allocated to the Bill, in the following week if possible, so as to complete the Commons stages. Even if the House of Lords did not then pass the Bill by the end of the Session, it would be better that the Bill should fall in the Lords than that the Government should receive the blame for not being able even to get it through the Commons.

In discussion it was pointed out that these difficulties all flowed from the original decision, taken in a previous Session, to allow a free vote on the seat belts issue. The prime time available in the Commons for Government legislation was all required for Bills which were at a more advanced stage, and it was not certain that the Bill could be completed in the Commons even if prime time was

allocated to it. Moreover the Lords would have an additional cause for complaint if another Bill was sent up to them at this late stage in the Session; and they would attribute to this any failure in completing its stages.

THE PRIME MINISTER, summing up this part of the discussion, said that he was concerned about the considerable difficulties being experienced in getting the remaining Government Bills through the House of Lords, and the possibility that the Lords might not be able to finish all the outstanding business before the new Session was due to start on 17 November. The Home Secretary, with the Lord Privy Seal, the Chief Whip and the Chief Whip (House of Lords), should accordingly examine all the problems surrounding the completion of the Session's legislative programme, and report back to the Cabinet in time for a further discussion on Tuesday 26 October. The group should report on all possible means of overcoming these problems, including such possibilities as dropping some legislation, finding extra sitting time in the period up to 17 November, or extending the Session, though The Queen's convenience as well as that of the Government would have to be considered. The group's report should also deal with what might be done about the Road Traffic (Seat Belts) Bill.

The Cabinet -

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

Allegations of Corruption against Certain Members of Parliament

THE PRIME MINISTER said that, in the absence of the Lord President, he had the previous afternoon, at short notice, answered a Private Notice Question asking what steps the Government proposed to take to clarify the position in law of Members of Parliament in relation to allegations of corruption. The Question had arisen from an article in The Observer, which discussed allegations against one named and two unnamed Members of Parliament in connection with the Poulson affair, and from a Written Answer given by the Attorney General on 19 October to the effect that the Poulson investigation, which was concerned solely with possible criminal offences, was being brought to an end. The Speaker had undertaken to give a ruling on whether there was a prima facie case of contempt of Parliament in connection with The Observer article. If the ruling, which was to be given that afternoon, was to the effect that a prima facie case existed, the normal response of the Government would be an immediate motion to refer the issue to the Committee of Privileges. But if, as appeared more likely, the Speaker ruled that there was no prima facie case, the question arose whether, in view of the serious

nature of the allegations, it would be right to let the matter rest there. To do so might lead to charges of a "cover up" and to persistent pressure for the allegations to be investigated. The Lord President had been of the view that any enquiry should be related to the future position of MPs, taking account of the recommendation of the Royal Commission on Standards of Conduct in Public Life that Parliament should consider bringing corruption and bribery of a Member of Parliament, acting in his Parliamentary capacity, within the ambit of the criminal law, and not to the past actions of the Members against whom allegations had been made; but in view of the feeling in the House on this matter he doubted whether this line could be sustained.

In discussion, it was argued that an enquiry into the truth or otherwise of the allegations discussed in The Observer article would revive Press and public interest in the widest ramifications of the Poulson case, and would also further discredit those who had been convicted and in some cases already been released from prison. The named MP, Mr Cordle, had already instituted a libel action against The Observer which was a matter for settlement by the courts. An enquiry into the past conduct of the Members concerned could not in any case, under present law, result in criminal proceedings in respect of a corrupt action by an MP acting in his Parliamentary capacity; and to alter that law raised fundamental constitutional issues which would need to be very carefully considered. On the other hand, it was strongly argued that one of the reasons for Parliamentary privilege was that Parliament had its own remedies to deal with the misconduct of Members; and it would be very dangerous to allow an impression to be created that privilege could be used to protect the private commercial transactions of Members. There was therefore a strong case for an investigation by Parliament into the allegations of corruption which had been made.

In discussion of the method of an investigation, it was generally agreed that the Committee of Privileges was not well constituted to deal with the matters at issue. While it was arguable that an enquiry headed by a High Court judge might command greater public confidence than one internal to Parliament, there were objections of principle to such an enquiry. In any case action under the Tribunals of Enquiry (Evidence) Act 1921 would be quite inappropriate. The form of investigation best suited to the present circumstances would be one conducted by a select committee of the House of Commons whose membership should be carefully drawn to command public confidence. A motion to set this up would require prior consultations with the Opposition; and these should be set in hand.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that, whether or not the Speaker ruled that there was a *prima facie* case of contempt, a full investigation was required into the allegations made against certain MPs acting in their Parliamentary capacity, and that this investigation should be conducted by a select committee of the House of Commons. He would make a statement to this effect in Parliament that afternoon. He would also make it clear that this select committee would not be concerned with considering possible changes in the law following the recommendation of the Salmon Commission.

The Cabinet -

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

CASH LIMITS

2. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (CP(76) 85) about cash limits on public expenditure in 1976-77.

THE CHIEF SECRETARY, TREASURY, said that the proposal before Cabinet was that in general the Government must hold expenditure in 1976-77 within the existing cash limits, which had been laid down in the White Paper (Cmnd 6440), published the previous April; and Departments must plan accordingly. There would be a number of special cases, mainly those in which a significant proportion of costs were incurred directly in foreign currencies, which would need individual consideration, although even here there should be no question of an increase in the cash limit unless it was clear that there was no alternative way of absorbing the extra expenditure. It would be most desirable to make an early public statement of the Government's general intention to make the existing limits stick in order to make it clear that the Government was keeping public expenditure under control. Monitoring which had been carried out on expenditure to date in the current year showed no tendency to over-spend - rather the reverse.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed with the general proposition that existing cash limits must be observed. When the cash limits had been fixed it had been made clear that account would have to be taken of unforeseen difficulties, and that if the rate of inflation turned out substantially different from that allowed for, the Government would have to take stock of the position in the light of current circumstances. This they were now doing. Remembering the high level of the public sector borrowing requirement, it was clearly necessary to take a firm stand. Ministers with problems could discuss these bilaterally with the Chief Secretary, Treasury, to see whether some relaxation could be agreed, or some offsetting savings found. The Chief Secretary, Treasury, should then circulate the draft of a public statement reaffirming the Government's intention to abide by the existing cash limits, with such minor exceptions as might prove necessary.

The Cabinet -

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

2. Invited those Ministers who saw difficulty in keeping within their cash limits to consult bilaterally with the Chief Secretary, Treasury, with a view to agreeing either some increase in the limit or offsetting savings.

3. Invited the Chief Secretary, Treasury, to circulate a draft of a possible public statement as soon as he had completed these bilateral discussions.

RATE SUPPORT GRANT

Discrimination

Previous Reference: CM(76) 22nd Conclusions, Minute 3

3. The Cabinet considered a memorandum by the Secretary of State for the Environment (CP(76) 67) on the scope for discrimination between local authorities in the distribution of Rate Support Grant (RSG).

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the Cabinet on 3 August had asked him to bring forward a paper setting out the issues which would be involved in discriminating between local authorities in the calculation of RSG. He had examined the subject carefully and had reached the conclusion that even if it were legally open to discriminate the difficulties involved were so great that it would be preferable not to do so. This view had received a good deal of support at a discussion in the Ministerial Group on the Rate Support Grant. In any case the Law Officers had subsequently advised that there was no power under the Local Government Act 1974 to permit discrimination in the grant between individual authorities on the basis of their expenditure performance. In consequence discrimination was not practicable without new legislation; this could not deal with discrimination alone but would have to form part of a coherent set of proposals for local government finance as a whole in response to the Layfield Report.

In discussion some emphasis was put on the need for the possibility of discrimination to be actively pursued in the further consideration of local government finance being undertaken in relation to the Layfield Report. The present arrangements under which those local authorities who had followed the guidance of the central government nevertheless had to be covered by any measure taken to deal with the consequences of the failure by other authorities to follow the guidance, were quite unsatisfactory. It would be most helpful if the local authority associations could be brought to recognise that powers to discriminate in these circumstances would be in general for the benefit of their members. It was pointed out on the other hand that there were serious difficulties of principle in any scheme for discrimination and in particular that very careful consideration should be given before legislative measures were introduced which imposed sanctions related to the way in which local authorities had discharged their functions.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet noted that there was no way at present of discriminating between local authorities on the basis of their expenditure performance. There was however a considerable feeling that the possibility of discrimination should be actively pursued in the further consideration of future financing of local government which was being carried out following the Layfield Report. Although there would undoubtedly be difficulties in a scheme for discrimination the disadvantages of being unable to discriminate were also serious.

The Cabinet -

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

2. Took note that there was at present no legal power to discriminate in the provision of Rate Support Grant between local authorities on the basis of their expenditure performance.

3. Invited the Secretary of State for the Environment to consider in consultation with the other Ministers concerned whether and how to incorporate provisions for discrimination into the new arrangements which would be developed following the Layfield Report.

RATE SUPPORT GRANT

Level of Grant

Previous Reference: CM(76) 22nd Conclusions, Minute 3

4. The Cabinet considered memoranda by the Secretary of State for the Environment (CP(76) 86), the Secretary of State for Scotland (CP(76) 89) and the Central Policy Review Staff (CP(76) 90) on the level of Rate Support Grant (RSG) for 1977-78.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that the level of RSG had a very important influence on the level of local authority expenditure. However although the Government could control the RSG they could not control the rates levied by the local authorities and in consequence could not directly control the total level of their expenditure. For this reason the co-operation of the authorities was necessary if their expenditure was to be limited, and this meant that the determination of the level of the RSG had to be a mixture of economic and political judgments. A further difficulty which had to be remembered was that the lower the level of RSG the higher the likely increase in rates, and since rates were reflected in the retail price index this was directly in conflict with the Government's counter-inflation policy. There were some grounds for optimism about future levels of expenditure. There were now better arrangements for consultation between the Government and the local authorities and the increase in their real expenditure had been brought down in successive years to a figure of less than 2 per cent in the current financial year with a prospect of no growth or perhaps even a small reduction in 1977-78. In his opinion a grant of 62 per cent would be most appropriate. This would be a severe settlement: it would mean a fall of 3½ percentage points from the grant for 1976-77, much the largest reduction there had ever been in the level of grant. Nevertheless he believed that he could carry the local authorities to accept this figure but he did not see any possibility of doing so at any lower figure. When the level of grant had previously been discussed in the Ministerial Group on the Rate Support Grant the Chief Secretary alone had supported a lower figure. He therefore asked the Cabinet to agree to a figure of 62 per cent.

THE SECRETARY OF STATE FOR SCOTLAND said that the Cabinet had decided under a previous item to make no allowance in the cash limit for the RSG for 1976-77 for the fact that inflation was going to be more rapid than had been allowed for when the limit was originally fixed. Nevertheless in his view the Scottish authorities would be faced with additional expenditure of £19 million on this account. For this reason, and because of the cut in the rate increase order for 1976-77 which had been decided in August it was not realistic to think that local authorities would start the coming financial year with large cash balances in hand, and this affected the increase in rates necessary to finance a given level of local authority expenditure. On his calculations a grant of 62 per cent would require an average rate increase of 20 per cent in Scotland even if the authorities kept their expenditure to the level laid down in the public

expenditure White Paper (Cmnd 6393) and an average increase of 33 per cent if they maintained their expenditure in the coming year at the level of the current year. In addition local authorities would be increasing rents. There would be grave political difficulty if it became clear that the Government was conducting its policies so as to bring about an average rate increase of 20 per cent. He considered that the grant should be set at 63 per cent even though he believed that circumstances really warranted a figure of 64 per cent.

In discussion it was argued on the one hand that the crucial issue was the level of expenditure of the local authorities. If, as expected, a grant of 62 per cent led to spending by the authorities of £250 million in excess of the provision in Cmnd 6393 this would require either reductions in central government expenditure or an increase in taxation. To avoid these unwelcome alternatives it would be preferable to set the grant at a lower level so as to induce the authorities to make reductions in their expenditure. It was not clear that a lower level of grant would have an adverse effect on the retail price index. If authorities responded by cutting expenditure rather than increasing the rates there would be no effect on prices. If on the other hand the grant was set at 62 per cent this would add £250 million to the Public Sector Borrowing Requirement. To cover that by an increase in indirect taxes would increase the price level by much more than would an increase in rates. Even if setting the grant at 60 per cent, rather than the 62 per cent recommended by the Secretary of State for the Environment, resulted in no consequential reduction in local authority expenditure and were wholly made up by an increase in rates this would increase the retail price index by only 0.18 per cent. The Government proclaimed that it was their policy to give priority to manufacturing industry. In practice, however, they had done little to substantiate this. There had been no transfer of resources from the public to the private sector. Unemployment in the public sector was one-third as high as in the private sector; in the previous year local authority employment had risen by 1½ per cent while unemployment in the country as a whole had risen. It was widely felt in the country that the public sector was being sheltered from the effects of the economic crisis at the expense of manufacturing industry.

On the other hand it was argued strongly that even a figure of 62 per cent would put at serious risk the machinery for co-operation with the local authorities which had been created with much difficulty and which was very valuable. There were good reasons to suppose that rate increases might prove larger than had been suggested: if local authorities forecast inflation being more rapid than allowed for in the Government calculations, and if they were unwilling to run down their balances to the extent expected, they would need to raise more finance. The burden of a severe

settlement would be felt particularly by the poor authorities and the effect in Wales would be more severe than in England. The decision which the Cabinet had taken on cash limits was an additional pressure on local authorities and it was most important not to reach a position where very large rate increases were forced on the local authorities who would in turn be able to lay the blame for them on the central government. The effect of rate increases on the retail price index might exceed the figures which had been quoted and it was quite unsatisfactory to ignore this increase because, taken on its own, it seemed small. A whole series of Government measures were all adding to the rate of price increases and this was becoming a matter of increasing dissatisfaction both to the Trades Union Congress and to the public at large. Full account had to be taken of the fact that rent, water charges and fares were all likely to have to rise and it was important to avoid any more pressure on prices by the local authorities. A cut of $3\frac{1}{2}$ percentage points in the level of grant was clear evidence of a switch of resources from the public sector. Furthermore a very severe squeeze on local authority expenditure would result in increased redundancies and these would result in an offset in any apparent saving in the public sector borrowing requirement.

THE PRIME MINISTER, summing up the discussion, said that a majority of the Cabinet favoured setting the RSG at 62 per cent. The Government was however facing very great difficulties over public expenditure: and it was not clear that, despite the skill with which the Secretary of State for the Environment had been handling the matter, the local authorities fully appreciated the seriousness of the situation. Internal and external pressures were going to be very severe in the months ahead. Furthermore the Cabinet had previously accepted that it was only by strengthening industry that the country could emerge from its severe economic difficulties. If they did not do this by changing priorities in public expenditure it would have to be done by fiscal action.

The Cabinet -

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

2. Agreed that the Rate Support Grant for England and Wales for 1977-78 should be 62 per cent and that the settlement in Scotland should be on a similar basis.

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5. The Cabinet had before them a memorandum by the Home Secretary (CP(76) 88) on the introduction of legislation to prepare for direct elections to the European Assembly.

THE HOME SECRETARY said that his memorandum set out the basic dilemma arising from the Government's statement that it would use its best endeavours to meet the target date of May-June 1978 for Community-wide direct elections to the European Assembly, the conclusion of the Second Report of the Select Committee, published in August, that to meet this date a Bill would need to be introduced at the outset of the new Session and, on the other hand, both the political difficulties and the difficulties in relation to the legislative timetable which the early passage of such a Bill would entail. Even on the abbreviated basis recommended by the Select Committee the Boundary Commission procedures would still take some 30 weeks and would need to be completed by the end of 1977 if preparations were to be made in good time for direct elections on the date envisaged of May-June 1978. There was therefore some case for considering whether these procedures could not be further truncated. But his conclusion was that it would be premature to take decisions at present on Boundary Commission procedures and such linked questions as the allocation of seats to the constituent parts of the United Kingdom. His recommendation was that the Government should announce their intention in The Queen's Speech to introduce legislation in the next Session, that a start should be made on the drafting of the Bill but that the timing of its introduction should be decided later in the light of progress on devolution legislation.

In discussion it was argued that at a time of acute financial stringency the cost of direct elections for the United Kingdom, estimated at some £10 million, would not be commensurate with any benefits which they would yield. Direct elections were unpopular in the Labour Party and were not thought by the electorate at large to have any relevance to the problems faced by ordinary people. And agreement to introduce legislation during the next Session simply meant our being edged even further along a dangerous and unrewarding road.

On the other hand it was pointed out that while at some stage we would have to choose between meeting the target date and telling our Community partners that despite our best endeavours we had not been able to do this, a course which it was more than possible that we would have to adopt, the moment for this choice had not yet arrived. It might in fact be to our advantage for direct elections to coincide with the date of a General Election and this could form the basis in due course of revised proposals by us on timing to our Community partners. But this was for the future; to decide now not to include in The Queen's Speech a declaration of our intention to introduce

legislation in the next Session would cause major difficulties for the Foreign and Commonwealth Secretary in the negotiations now in train in the Community involving vital British interests such as fisheries. A declaration of intent, however, in The Queen's Speech, even without any commitment to introduce legislation at any particular date, would hold off these pressures for the immediate future. Discussions on related matters therefore, such as the allocation of seats to the constituent parts of the United Kingdom, could be left until later. Nor did it seem necessary, if a declaration of intent were being made in The Queen's Speech, to accept the Select Committee's recommendation for an early debate.

In further discussion it was argued that the representation of Northern Ireland raised special problems. The Select Committee had recommended three seats from the total United Kingdom allocation. This was acceptable but unless one of the three representatives were a Catholic there would be considerable difficulties with the Catholic voters and the Social Democratic Labour Party and this made it necessary for some further thought to be given to the electoral arrangements for Northern Ireland. In the meantime it seemed premature for a decision to be reached, as recommended in the Home Secretary's memorandum, on the "first past the post" electoral system for all component parts of the United Kingdom.

THE PRIME MINISTER, summing up the discussion, said that there was general agreement that The Queen's Speech should contain a commitment to introduce legislation in the next Session without any commitment as to when a Bill would be introduced. In the meantime the drafting of legislation (including alternative Boundary Commission procedures) should begin. The general view of the Cabinet was that there need be no early debate but there might be some discussion of direct elections in the Debate on the Address. Further consideration should be given to the allocation of seats between the constituent parts of the United Kingdom and the procedure for determining the constituency boundaries (including the possibility of a truncated Boundary Commission procedure). No decision should be taken at this stage about the general adoption of a "first past the post" electoral system, but the Secretary of State for Northern Ireland should prepare a paper on the practicability of devising an electoral system which would permit a Catholic to be elected. The timing of the Bill should be considered in due course by Cabinet in the light in particular of progress with the devolution legislation.

The Cabinet -

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

2. Invited the Home Secretary to bring before the Cabinet in due course a memorandum on the allocation of seats between the constituent parts of the United Kingdom and the procedure for determining the constituency boundaries (including the possibility of truncated Boundary Commission procedures).

3. Invited the Secretary of State for Northern Ireland to bring before the Cabinet in due course a memorandum on the practicability of devising an electoral system for Northern Ireland which would permit a Catholic to be elected.

Cabinet Office

21 October 1976

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M(76) 28th
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COPY NO 76

CABINET

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

TUESDAY 26 OCTOBER 1976

at 10.00 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

e Rt Hon Lord Elwyn-Jones ord Chancellor	The Rt Hon Denis Healey MP Chancellor of the Exchequer
e Rt Hon Anthony Crosland MP cretary of State for Foreign and mmonwealth Affairs	The Rt Hon Merlyn Rees MP Secretary of State for the Home Department
e Rt Hon Shirley Williams MP cretary of State for Education and Science Paymaster General	The Rt Hon Anthony Wedgwood Benn MP Secretary of State for Energy
e Rt Hon Eric Varley MP cretary of State for Industry	The Rt Hon Peter Shore MP Secretary of State for the Environment
e Rt Hon Roy Mason MP cretary of State for Northern Ireland	The Rt Hon Bruce Millan MP Secretary of State for Scotland
e Rt Hon John Morris QC MP cretary of State for Wales	The Rt Hon Fred Mulley MP Secretary of State for Defence
e Rt Hon Albert Booth MP cretary of State for Employment	The Rt Hon David Ennals MP Secretary of State for Social Services
e Rt Hon Edmund Dell MP cretary of State for Trade	The Rt Hon Lord Peart Lord Privy Seal

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

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

The Rt Hon Baroness Llewelyn-Davies of Hastoe
Captain, Gentlemen-at-Arms (Item 1)

SECRETARIAT

Sir John Hunt
Mr W I McIndoe (Item 1)
Mr D le B Jones (Items 2 and 3)
Mr J A Marshall (Items 2 and 3)
Mr A D Gordon-Brown (Item 1)

CONTENTS

PARLIAMENTARY AFFAIRS

Select Committee on Allegations against Members of Parliament

Previous Reference: CM(76) 27th Conclusions, Minute 1

1. THE PRIME MINISTER said that the recent publication in the Press of a letter written by Mr Cordle MP to Mr Poulson, of whose contents he had previously been unaware, provided further confirmation of the wisdom of the Cabinet's conclusion at their last meeting that a Select Committee should be appointed to conduct a full investigation into the allegations which had been made against certain Members of Parliament acting in their Parliamentary capacity. In view of the continuing Press interest it was now important to table an early Motion to set up the Committee. The proposed terms of reference, which had been drawn up by the Home Secretary in consultation with other Ministers, were "to inquire into the conduct and activities of Members of this House in connection with the affairs of Mr J G L Poulson and of companies associated with him; to consider whether any such conduct or activities amounted to a contempt of the House or an abuse of that freedom of speech and debates or proceedings in Parliament which is immune from impeachment or question in the courts or was beneath the standards which the House is entitled to expect from its Members; and to report and make recommendations". The terms of reference were linked specifically to the Poulson case but they went rather wider than proceedings in Parliament itself. This seemed essential in view of more recent allegations and the reference to standards which the House was entitled to expect from its Members followed the precedent of a comparable inquiry relating to Lord Boothby in 1940. As regards composition he thought that the Select Committee should number about 10 so as to include some Members who were not Privy Counsellors. It should have power to send for persons and papers and would have such assistance as it required from the Attorney General who would not however be a member. He also felt that the Committee should sit in private in order to avoid the great damage which could be done to individuals against whom unsubstantiated allegations might be made which were subsequently found to be groundless. The question whether counsel should be allowed to appear before the Committee was one which it seemed right to leave to the Committee to settle; it was hoped that if this were unavoidable any appearances would be for the purpose of advising witnesses before the Committee rather than acting on their behalf.

In discussion the point was made that the recent mention in The Socialist Worker of the names of a Minister and others was based on a letter which had been exposed two years ago as a forgery; and it was quite wrong that the Press should have given further currency to the story without disclosing that fact. It was important to strike a proper balance between the need to avoid any suggestion of a cover-up and the need to give adequate protection to individual reputations; and the proposal that the Select Committee should sit in private was helpful in this respect.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Home Secretary should pursue his discussions with the Opposition on the terms of reference and composition of the Select Committee as proposed, with a view to the Government putting down a Motion the following day. This might necessitate a debate for which time would be allowed, probably on Thursday.

The Cabinet -

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

Progress on the Legislative Programme

Previous Reference: CM(76) 27th Conclusions, Minute 1

The Cabinet had before them copies of minutes dated 25 October from the Home Secretary and the Lord President of the Council about the problems associated with completion of this Session's legislative programme.

THE HOME SECRETARY said that, after consultation with the Lord Privy Seal, the Chief Whip and the Chief Whip, House of Lords, he had concluded that the difficulties in the House of Lords were such that the best chance of getting all the Government's major Bills through relatively unscathed and of depriving the Lords of their excuse for any wrecking of the programme lay in extending the Session to 23 or 24 November; and this was the course he recommended. If the Session were not extended, there seemed no possibility of getting all five major Bills to Royal Assent; indeed, it would not even be possible to take the Health Services Bill through Committee in the Lords. Time had to be allowed not only for Commons' consideration of Lords' amendments but also for further consideration in each House of any amendments on which disagreement persisted. In order to confine debates on Commons' consideration of Lords' amendments, three supplemental timetable orders would be needed; and these orders could not be taken until Monday 8 November, and then only if the Government were successful in the by-elections on 4 November. There was a serious risk that, apart from losing a major Bill, the Government would have to choose between letting other Bills proceed to Royal Assent in a mutilated state or losing them this Session and proceeding under the Parliament Act next Session. The annexes to his minute set out in detail the background information relevant to these problems. The other side of the argument, which had also been put forward by the Lord President of the Council who doubted whether the attitude of the Opposition would be altered by an extension of the Session and who attached particular importance to securing a Second Reading of the Devolution Bill before Christmas, was that to extend the Session would mean cutting down still further the legislative programme for the

following Session, perhaps at the cost of the first priority Bills on Conspiracy and Homelessness and certainly at the cost of second priority Bills. It would also delay the passage of a number of urgent Bills and would put at severe risk the Government's intention to give a Second Reading to the Devolution Bill before Christmas. There was therefore a balance of argument. But in his view, the overriding aim should be to ensure that the Lords were clearly seen to carry the responsibility for the loss or mutilation of any Bills; and this could not be secured without an extension of the Session.

In discussion it was argued that the reasons put forward in the Lord President of the Council's minute for not extending the Session had considerable force. The attitude of the Lords could not be regarded in isolation from the general political difficulties faced by the Government, which the Opposition were anxious to exploit, and it would be unrealistic to suppose that the Opposition would allow that attitude to be altered by a short extension of the Session. The risk of mutilation or loss of Bills would still be present, and it would be preferable for the Government to reintroduce Bills next Session than to allow them to be enacted in an unacceptable form. On the other hand, it was argued that, although there could be no certainty about the effect which an extension of the Session would have on the attitude of the House of Lords, past experience suggested that they would see it as being in their own interest to act with regard to constitutional proprieties. The plain fact was that they had been landed with more major Bills than they could cope with in the latter part of the Session, and if in consequence a major Bill were lost, the Government would be on weak ground in attributing this to a lack of co-operation when they themselves had refused to extend the Session. Moreover, the loss of any major Bill would deal a serious blow to Party morale which would be hard to sustain if the public generally, in the light of the congestion of business in the Lords, were ready to attribute this loss and the mutilation of other Bills to mismanagement by the Government of their legislative programme. The Government should therefore demonstrate that they had done their utmost to secure the passage of all the major Bills. But before a final decision was taken to extend the Session, it would be important to see what understandings could be reached with the Opposition in the Lords about the effect which this would have on their attitude to future consideration of the remaining Bills.

THE PRIME MINISTER, summing up the discussion, said that a large majority of the Cabinet were in favour of extending the Session to 23 or 24 November. The Lord Privy Seal and the Chief Whip, House of Lords, should seek to establish with the Opposition the best possible understandings that, if the Session were extended, they would co-operate in securing the passage of all the Government's major Bills and would not pursue wrecking amendments to the limit. If the

Opposition's response was unforthcoming the Cabinet would need to consider the matter further and take a final decision at their meeting on Thursday. In the meantime, it was important that no public indication should be given, in briefing the Press or otherwise, of the Government's readiness to extend the Session. Against the likelihood that the Session would be extended, Ministers would need to consider further how the Government's business for the next Session might best be arranged in order to secure a Second Reading of the Devolution Bill before Christmas and to bring forward at the earliest possible opportunity those Bills which were of high priority or urgency. Consideration should also be given to the possibility of increasing the time available in the next Session, for example by reducing still further the time allowed for the short Recesses or by reducing the number of days normally allocated to major debates.

The Cabinet -

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

PUBLIC EXPENDITURE IN 1978-79 AND LATER YEARS

Previous Reference: CM(76) 22nd Conclusions, Minute 3

2. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 91) covering a memorandum by the Chief Secretary, Treasury, on the Public Expenditure Survey 1976.

THE CHANCELLOR OF THE EXCHEQUER said that there had been heavy pressure for panic cuts in public expenditure in the context of the recent further fall in the exchange rate, but he was resisting these. It would however be necessary to consider the new short-term economic forecast which would become available in the next day or so, and to agree upon a negotiating position with the International Monetary Fund, who were due to arrive the following week. For the Cabinet's present discussion it was essential that the Government should not exceed the limits laid down in the White Paper of the previous February (Cmnd 6393) as amended by his statement of 22 July last. Decisons were needed on the public expenditure figures for the years 1978-79 to 1980-81 so that work on the next White Paper could proceed with a view to its being published in January.

THE CHIEF SECRETARY, TREASURY, said that the position was set out in the tables appended to the report by the Treasury attached to his memorandum. Tables 1A and 1B set out the comparison with the Cmnd 6393 figures and showed that the margin between the last White Paper and the present position was very narrow - only £105 million in 1978-79 and £61 million in 1979-80. He recommended agreeing to additional expenditure of £94 million in 1978-79 and £117 million in 1979-80, but no more. For 1980-81 there was of course no comparison

with Cmnd 6393. Table 2 summarised the additional bids, and the following tables categorised those bids under various heads.

The Cabinet then proceeded to consider each of the tables 3-7 in turn.

Table 3 - Items remaining as Claims on the Contingency Reserve and Other Contingent Items

THE PRIME MINISTER, summing up a brief discussion, said that expenditure on dispersal featured both here and under the last entry in Table 6. To reverse present dispersal policy would be an important step, with repercussions in various parts of the country, and any Minister wishing to suggest such a course should put in a paper. The Treasury position was that the cost of dispersal should be absorbed in Departmental spending programmes. For the moment it was agreed that the items in Table 3 should be left as a claim on the Contingency Reserve.

The Cabinet -

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

Table 4 - Major Programmes where Outturn is relatively uncontrollable

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet noted that the Chief Secretary, Treasury, would be reporting later on the two items covered by this table. He would himself look with particular interest at what was proposed on export credit re-finance, on which he was sure something should be done.

The Cabinet -

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

Table 5 - Local Authority Current Expenditure (excluding Housing)

In discussion it was noted that the major problem on this area of spending was how best to keep the overall total in line with the Cmnd 6393 figures. Current expenditure of the local authorities was not under the Government's control, although the Government could offer guidance. For the purposes of the next White Paper it must be assumed that the figures in Cmnd 6393 would be made to stick. The conventions under which the exercise had to be conducted were not always conducive to making the best policy choices. Thus, in the last year there had been an additional 50,000 pupils in further

education and sixth forms, the total cost of which was some £35 million, offset in part by some £15 million of saving in supplementary benefits. On the net basis of £400 a head the cost of providing further education for these young people was lower than the cost of any alternative scheme for providing employment. There was however no way under the public expenditure exercise as now set up in which Cabinet could form a view on this kind of priority. However, it was pointed out that education expenditure was in the hands of local authorities and under the rate support grant system it was not possible for the Government to dictate the purposes on which the money should be spent.

In further discussion it was noted that the figures in Table 5 for law, order and protective services might be misleading, and there might be some incompatibility between the figures in the White Paper and those in Estimates. The point should be dealt with bilaterally between the Treasury and the Home Office.

THE PRIME MINISTER, summing up this part of the discussion, said that the Government could only express in the next White Paper a general intention to keep local authority current expenditure within the limits laid down in Cmnd 6393. The figures to go into the next White Paper should therefore be prepared on this basis.

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 SECRETARY OF STATE FOR THE ENVIRONMENT said that the figures in Table 6 for housing were not really additional bids at all, being merely the increased cost - arising from higher interest rates - of maintaining the same housing policies. He accepted that if more money had to be paid out in interest charges, other public expenditure had to be cut: but he did not accept that those cuts should be concentrated on the housing programme. The principle went right across the board, and he saw no reason why housing should be treated specially on this account just because it happened to be possible to increase the charges (in the form of rents) accruing to the programme. He warned Cabinet that this could mean an addition of £2 a week to council rents. Were cuts being proposed in other programmes to offset the increase in other public debt? The matter should be considered as a broad issue and not as one especially related to housing.

THE CHIEF SECRETARY, TREASURY, said that he sympathised with the view which had been put forward; but the truth was that the additional costs on the housing programme must be offset either in the housing programme or elsewhere. Of the addition of some £450 million a year, about £350 million was attributable to increased interest rates, and £100 million to a lower assumption about rent increases. The figures in Table 6 took no account of the most recent increase in interest rates, since there was no way of telling how long they would remain at such a high point. It was reasonable to find within the housing programme the savings needed to offset the increased interest charge; and the logic of the line propounded by the Secretary of State for the Environment was that the remainder of debt interest should be attributed to all other programmes, which should then be cut pro rata. To transfer the increase in debt interest on housing from the housing programme to the general debt interest line would cast doubts on the Government's credibility and the resultant increase in the public sector borrowing requirement would have to be met by increased taxation. He did not accept that it would be necessary to increase council rents by £2 per week. Instead the savings needed could be made in the following ways. If rents were assumed to be increased by 80p a week, instead of 60p a week, from 1 April 1978, this would save about £30 million and only have an effect of 0.08 per cent on the Retail Price Index. If new housebuilding were kept to the same level in 1978-79 and later years as had been agreed for 1977-78, this would save £150-£200 million a year; and adopting the same principle, savings could be made of £160 million in mortgage lending, £40 million in improvement grants, £20 million in improvement investment, £40 million in municipalisation, and £20 million in housing associations. This would yield the full amount needed.

In discussion of the possible increase in council rents, it was argued that the maximum increase tolerable was a matter of judgment. An increase of 80p would be much smaller than that which house owners with mortgages would face; but to do more would probably need legislation. It was more difficult to know what would be acceptable in the context of the counter-inflation policy prevailing in 1978. In any case, the Government could encourage but could not compel local authorities to increase rents. In Scotland no change in rents was likely to be necessary since it was expected that savings would come from a reduction in local authority housebuilding programmes as a result of higher interest rates. An increase of more than 80p in rents could lead to difficulties with the trade unions; but unless the Government were seen to be sticking to the White Paper figures the whole of their economic policies could come apart. It had to be recognised that an increase in rents could make the negotiation of a third pay round more difficult, although it was unlikely to wreck the prospects of a successful negotiation.

In discussion of the housebuilding programme it was argued that the programme was already near to collapse. If expenditure on housebuilding were held to the 1977-78 level it would be possible to protect the priority areas but the rest of the programme would be reduced to 20 per cent of its level over the past two or three years. It was noted that the construction industry had the highest unemployment of any industry in the country; and that housebuilding was a very sensitive issue with Labour local councils. There was a case particularly in Scotland for reducing expenditure on roads rather than housing.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that the additional expenditure of £450 million a year on housing had to be offset in some way. On balance, they were agreed that an increase in council rents of 80p from 1 April 1978 would be acceptable, and this would save some £30 million. It should not however be announced in the White Paper. The Secretary of State for the Environment had indicated in discussion that he would be prepared to reduce mortgage lending by £150 million a year gross, but only providing it would be possible to agree to amend the presentation of public expenditure figures in such a way as to exclude lending by the building societies to local authorities. In Scotland housebuilding was already falling, and the Secretary of State for Scotland would prefer to take cuts on roads expenditure rather than reduce housing further; but the responsible Secretary of State in England could not commit himself to this alternative. He did not think that the Cabinet could usefully pursue the question of finding other offsetting savings further at that meeting; and he noted that there was still outstanding the question of an excess in 1977-78. He suggested that the Chief Secretary, Treasury, should consider what other proposals he might bring forward for offsetting the excess housing expenditure; and that the Secretary of State for the Environment should consider further the proposals which the Chief Secretary, Treasury, had put forward at their meeting. The Cabinet would then consider the matter further on a later occasion.

The Cabinet -

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

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THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he was prepared to withdraw that part of his additional bid which related to public holidays, nurses' training (the Briggs Report) and improvement in methods of treatment. But he did not feel able to withdraw his bid for £93 million in 1980-81 which was the product of demographic

change. To exclude it from the provision for 1980-81 would be to imply that the Government intended to bring about a decline in the level of services for old people.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that any figures which were entered for 1980-81 were necessarily highly provisional. The best solution would be to enter the lower figures for 1980-81 for this programme, but to add a footnote that they were subject to increase in the light of the demographic projections.

The Cabinet -

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

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THE SECRETARY OF STATE FOR ENERGY said that some minor amendment of the figures had been agreed between officials in his Department and the Treasury, covering mineworkers' pensions and the need for coke-stocking aid. In his view the provision for the Joint Research Centre should not rest upon Department of Energy Votes, but should be carried elsewhere. The expenditure was something to which the Government was committed.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet accepted that the expenditure on the Joint Research Centre, on pit closures, and on the Redundant Mineworkers' Pensions Scheme, would all have to be accepted as additions to the figures. The other items under this heading should all be treated as claims on the Contingency Reserve. The Secretary of State for Energy should give particular attention to the expenditure on fuel efficiency to ensure that it was well spent.

The Cabinet -

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

Agriculture, Fisheries, Forestry and Food

This item was not discussed because of the absence abroad of the Minister of Agriculture, Fisheries and Food.

Employment

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet accepted that the expenditure on the Maternity Fund was unavoidable and would have to be accepted.

The Cabinet -

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

Table 7 - Remaining Funds

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that provision should be made of £10 million a year on account of the items in this table, which would then be left to be discussed separately.

The Cabinet -

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

General

THE PRIME MINISTER said that the Cabinet had now covered most of the ground in the Chief Secretary, Treasury's memorandum; but they were still lacking sufficient savings to offset the increased expenditure on housing; and they had yet to deal with the fulfilment of the Government's commitment to finding more money for the National Enterprise Board and for selective assistance to industry, which would be discussed the following week in the Ministerial Committee on Economic and Industrial Policy. The Cabinet would have to resume consideration of these matters at a later meeting. The Cabinet had also noted that the depreciation of sterling made it difficult for the Secretary of State for Defence to keep his estimates for 1977-78 in line with the Cmnd 6393 figures. However the Secretary of State for Defence should proceed on the basis that this must be done.

The Cabinet -

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

PUBLIC EXPENDITURE 1977-78

3. The Cabinet discussed public expenditure in 1977-78. This discussion is recorded separately.

Cabinet Office

26 October 1976

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COPY NO 37

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 28th Conclusions, Minute 3

Tuesday 26 October 1976 at 10.00 am

PUBLIC EXPENDITURE 1977-78

THE CHANCELLOR OF THE EXCHEQUER said that Cabinet had been discussing ways of keeping the public expenditure figures for 1978-79 and later years within those laid down in Cmnd 6393. In his view there was need for contingency work to be done on a possible further package affecting also 1977-78, in a way which would leave the Government some room for choosing priorities. In the next day or so he would be receiving the latest short-term economic forecasts, and it was possible that these might point to the need for some further expenditure cuts in the near future, if only to relieve the strain on industrial policy from the present high interest rates. Furthermore, the team from the International Monetary Fund (IMF) would be arriving the following week. He proposed to put suggestions to the Ministerial Committee on Economic Strategy about new measures that might be needed and about the way in which the negotiations with the IMF should be conducted, including the concessions we might make and what our sticking points should be. In the course of the next month Cabinet would need both to complete the consideration of public expenditure they had begun that day and to take any further decisions needed to stem the pressure on the pound and to meet whatever terms might be negotiated with the IMF. To this end it would be useful if officials of the Treasury and the spending Departments could discuss the possible scope for further public expenditure savings, preferably in areas not previously explored. The aim would be to identify what was technically feasible, leaving decisions to be taken later by Ministers. He was not at present able to say what scale of reductions might be required.

In discussion it was argued that, in any further reductions, regard would have to be had to the credibility of the Government's industrial policy. The Government laid great emphasis on priority for industrial investment, but were in fact supporting industry less than their predecessors. It was likely that the next investment intentions survey would show a fall, because of high interest rates. The Department of

Industry programme had been cut by £160 million in July; and there were now suggestions that there should be reductions in such areas as Regional Development Grants. Unless the Government's industrial policy were really given priority, there was little hope for providing the new jobs which were essential if the Government was to stick by the social contract. On the other hand, it was argued that it would be wrong to isolate industrial strategy from the Government's total economic strategy. Industry would get the advantage of massive tax relief and the massive depreciation which had taken place in the exchange rate. The main reason why further cuts in public expenditure might be needed was because a slowing down of the economy would lead to an increase in the public sector borrowing requirement; on the other hand more deflation would increase unemployment and produce a ratchet effect.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that officials should undertake an exercise to identify areas in which reductions in public expenditure in 1977-78 might technically be possible. Ministers would be in no way committed by this exercise and it would be for Cabinet to take the policy decisions.

The Cabinet -

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

Cabinet Office

27 October 1976

(76) 29th
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COPY NO 76

CABINET

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

THURSDAY 28 OCTOBER 1976

at 10.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

Rt Hon Lord Elwyn-Jones
rd Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

Rt Hon Anthony Crosland MP
cretary of State for Foreign and
mmonwealth Affairs

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

Rt Hon Shirley Williams MP
cretary of State for Education and
ence and Paymaster General

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

Rt Hon Eric Varley MP
cretary of State for Industry

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

Rt Hon Roy Mason MP
cretary of State for Northern Ireland

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

Rt Hon John Morris QC MP
cretary of State for Wales

The Rt Hon Fred Mulley MP
Secretary of State for Defence

Rt Hon Albert Booth MP
cretary of State for Employment

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

Rt Hon Edmund Dell MP
cretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

Rt Hon John Silkin MP
ister of Agriculture, Fisheries
Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Samuel Silkin QC MP
Attorney General (Items 1 and 3)

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Baroness Llewelyn-Davies of Hastoe
Captain of the Gentlemen-at-Arms (Item 1)

SECRETARIAT

Sir John Hunt
Mr G R Denman (Items 2 and 4)
Mr W I McIndoe (Items 1 and 3)
Sir Clive Rose (Item 2)
Mr A D Gordon-Brown (Items 1 and 3)
Mr A K H Atkinson (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.

Debate on Welsh Affairs

THE SECRETARY OF STATE FOR WALES said that it was usual to have one day on the Floor of the House each Session on Welsh affairs. The last such debate, a year ago, had followed the debate on the remaining Commons stages of the Welsh Development Agency legislation; barely two hours had been available and time had to be found to resume the debate three weeks later. He was anxious to avoid any repetition this year of that unsatisfactory arrangement, and his first priority on Monday 1 November was the Report and Third Reading of the Development of Rural Wales Bill. He very much doubted whether time would remain for a general debate on Welsh affairs after both the debate on the Motion to appoint a Select Committee to investigate the allegations against Members of Parliament, which might require considerable time, and the remaining stages of his Bill. He would prefer that the general debate on Welsh affairs should not be announced for that day, and that a better time for this debate should be sought later in the spillover.

THE CHIEF WHIP subsequently reported that arrangements could be made for a debate or resumed debate on Welsh affairs on Friday 5 November in place of the debate on the highway code, or later in the spillover, perhaps while awaiting Lords amendments.

THE PRIME MINISTER, summing up this part of the discussion, said that if the debate were postponed beyond the following week there would be a risk of its being overtaken by events, and it would be better to arrange the general debate on Welsh affairs on Friday 5 November.

The Cabinet -

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

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The Cabinet were informed of the order of reference and composition so far proposed for the Select Committees on the Conduct of Members.

THE HOME SECRETARY said that the outstanding point of difficulty, which had emerged from his consultations with the Opposition Parties, related to the proposal, which the Cabinet had favoured at their last meeting, that the Select Committee should sit in private. The present position was that any Select Committee had power to exclude members of the public from their proceedings and that Members of Parliament, who had a right to attend the proceedings in that these were formally part of the proceedings of the House itself, were generally prepared to withdraw simply on a request to do so. The Opposition were very strongly in favour of imposing a requirement on the Select Committee to exclude Members of Parliament as well as members of the public on the basis that the order of reference should also require the Committee to publish, together with their report, all such oral or documentary evidence considered by them as appeared to them to be relevant and admissible. This, in the Opposition's view, would strike the right balance between avoiding any appearance of a cover-up and protecting Members against the spread of unfounded allegations. He himself had much sympathy with this view, although to impose a requirement on the Committee in the sense suggested would be an unusual step and would be bound to be controversial.

In discussion it was recognised that a requirement of the kind proposed would lead to considerable criticism from many back-benchers. Even giving the Select Committee a discretionary power to exclude Members of Parliament, who were not members of the Committee, would provoke a good deal of criticism, particularly since the precedents showed that such a power had not been given since 1857. Comparisons would be drawn between the privacy being accorded to Members of Parliament whose conduct was being investigated as compared with private citizens in the courts. Even Tribunals of Inquiry were normally open to the public. Some awkwardness might also arise from the difficulty of applying any effective sanction if, for example, a Member were to publish evidence which he had submitted to the Select Committee and for which he might claim Parliamentary privilege. In favour of giving the Committee a discretionary power, rather than a direction, to exclude Members of Parliament as well as the public, it was argued that the Select Committee would be well composed to exercise this power wisely. On the other hand, it was pointed out that if a power and not a direction were given, the Opposition might throw the whole matter open to debate and press for a Tribunal of Inquiry, for which there might be considerable public support. Such a Tribunal or any other inquiry of a quasi-legal nature would be wholly inappropriate to the investigation of matters which were essentially the domestic concern of the House and which were not substantially of a different order from matters habitually dealt with by

the Committee of Privileges. The analogy of proceedings in a court of law, which were not by any means invariably open to the public, was not apt, since in their case there were specific charges, known to the defendants beforehand, and scurrilous and inadmissible evidence could be ruled out. There was a defensible case therefore for requiring the Select Committee to exclude Members of Parliament as well as the public from their proceedings, provided that they were also required to publish their report and the relevant evidence at the end of their task. This would at least enable any groundless allegations in the evidence to be disposed of at the same time rather than be the subject of publicity and speculation over several months.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were conscious that a proposal that the Select Committee should be required to exclude Members of Parliament and members of the public from their proceedings would be strongly attacked by some sections of the House and the public. Nevertheless, the Cabinet agreed that, when combined with the proposed requirement to publish the relevant evidence together with the report, this would offer the best hope, in the unusual circumstances of an inquiry of this kind, of reconciling the aim of a full and thorough investigation with the need to limit the spread of allegations which might be groundless. The Home Secretary would accordingly arrange, subject to his final consultations with the Opposition Parties, for a Motion to be tabled that evening setting out the composition and order of reference of the Committee, on the lines agreed in discussion, and the debate on the Motion would be arranged for Monday 1 November.

The Cabinet -

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

Progress in the Legislative Programme

Previous Reference: CM(76) 28th Conclusions, Minute 1

THE LORD PRIVY SEAL said that the Opposition in the House of Lords had been sounded about their attitude in the event of an extension of the present Session, and had not been very forthcoming, though they had agreed not to hold up the Government's business deliberately. They would give no specific undertakings about getting the business through, since they could not control their own backbenchers or cross-bench or Liberal Peers, but they accepted that an extension would help. Their attitude in any dispute with the House of Commons over Lords amendments would depend upon the political atmosphere at the time and the attitude of the Commons. They wished to see some positive return for all their hard work on the major Government Bills; and, if their amendments were rejected wholesale by the Commons, this could cause Conservative backbench Peers to insist on some of these

amendments. He regarded extension of the Session as vital. This would demonstrate the Government's determination to get their Bills through, though he could not guarantee success, and it would place the blame firmly on the Lords if this proved impossible.

THE CHIEF WHIP, HOUSE OF LORDS, said that without an extension the Health Services Bill would be lost, and possibly another Bill. Disputes over Lords amendments, requiring a second exchange of messages between the two Houses, were likely to arise on the Aircraft and Shipbuilding Industries and Dockwork Regulation Bills, and possibly on the Education Bill: it was essential to provide sufficient time for these exchanges.

THE HOME SECRETARY said that, if the start of the new Session were to be postponed, it would still be possible to take the Second Reading of the Devolution Bill before Christmas, by deferring until after the Christmas Recess other business which it had been planned to take before Christmas.

In discussion it was suggested that care should be taken in the timing of Ministerial speeches criticising the House of Lords. An onslaught on the Lords now would rouse them still further, which would not help in getting the Government's legislation through. Most people in the country were much more concerned about how the Government were tackling their economic problems than about the progress of legislation. Against this it was argued that the Lords, encouraged by the Leader of the Opposition, were making amendments of a wrecking character which went far beyond the role of a revising Chamber; and Ministerial criticism of this behaviour helped with Government supporters and with the trade unions. Unemployment would in fact result if the Aircraft and Shipbuilding Industries Bill did not reach Royal Assent this Session, and the right of an elected Government to get their legislation through must be defended.

THE PRIME MINISTER, summing up the discussion, said that at the Cabinet meeting on 26 October there had been a clear majority for extension of the Session, and the Cabinet now confirmed their decision to extend the present Session, which would be well worth while if the Government could then obtain all their major Bills. Wednesday 24 November would be the most convenient day for the Opening of the new Session. This decision should be announced by the Home Secretary that afternoon in the course of the Business Statement, and an appropriate announcement should also be made in the House of Lords. Any references which Ministers chose to make in speeches about obstruction in the House of Lords should of course be directed to the actions of the Tory Peers: the Cabinet much appreciated the good work of Labour Peers in recent weeks.

The Cabinet -

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

FOREIGN AFFAIRS

Rhodesia

Previous Reference: CM(76) 26th Conclusions Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said it seemed likely that the Conference would open that afternoon without any pre-conditions having been made by the participants. At Mr Richard's meeting with Mr Nkomo and Mr Mugabe yesterday, the latter had again pressed that he should go to Geneva to open the Conference. He had decided not to do so on three grounds. First, it would have the effect of weakening Mr Richard's position; second, there would be a risk that it would be seen as giving way to the nationalist demands to negotiate with the British Government rather than with Mr Smith; and, third, it could lead to more direct United Kingdom involvement in the proceedings, to which the Cabinet were opposed. He had also been urged to agree to the attendance of observers at the Conference. On balance he had concluded that there would be advantage in admitting, in addition to representatives of the front-line Presidents, representatives of Mauritius, which held the Presidency of the Organisation of African Unity, and of the Commonwealth Secretary General. The United States had not sought observer status. As regards the prospects, there would be pressures on Mr Smith, who could not reckon to restore the situation as it was six months ago. There would also be pressures on the nationalists, in that the alternative to a successful outcome of the Conference would be a return to the bush: neither Mr Nkomo nor Bishop Muzorewa wanted this. Furthermore if they were to back out the field would be left to Mr Mugabe or possibly to someone else as yet unknown, so they would wish to avoid a breakdown. There were clearly major difficulties ahead: but, while he could not claim to be optimistic, he did not rule out the possibility of success.

The Cabinet -

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

THE QUEEN'S SPEECHES

3. The Cabinet had before them a paper by the Lord Chancellor (CP(76) 95) covering drafts of The Queen's Speeches on the Prorogation of Parliament and the Opening of the new Session which had been prepared by The Queens's Speeches and Future Legislation (QF) Committee.

Prorogation Speech

The Cabinet approved the draft Prorogation Speech, subject to deletion of the words "In consultation with other Governments" at the beginning of the paragraph on Rhodesia on page 1, and to reconsideration of the wording of the second sentence of the final paragraph on page 3, which referred to encouragement of a "high and stable level of building for owner-occupation".

Opening Speech

THE LORD CHANCELLOR said that the QF Committee had recommended that the Speech should not promise the introduction next Session of more legislation than there might be time to complete. The decision now taken to extend the present Session would mean fewer days available for legislation next Session than had been expected when the draft Opening Speech had been considered by the Committee, and it might now be necessary to take the painful step of excluding some Bills mentioned in the Speech. Some Ministers, however, had asked that additional Bills should appear in the Speech. But not mentioning a Bill in The Queen's Speech did not mean that the Bill could not be introduced, if time should in the event prove available.

The Cabinet then considered the draft Speech paragraph by paragraph, and the following points were made:

Page 1, 3rd paragraph. The Minister for Overseas Development, who could not be present, had proposed that the second sentence should say that overseas aid would increasingly be directed towards the poorest developing countires because, without the added word "increasingly", this sentence did not take account of the fact that overseas aid was by no means exclusively directed to such countries. It was pointed out, however, that "increasingly" might seem to imply an increasing total of aid; and it was agreed to leave this sentence unchanged, subject to further consideration at the Cabinet's next discussion of the Speech.

Page 1. The penultimate paragraph should say that the Government "will introduce" legislation on direct elections.

<u>Page 2.</u> In the <u>1st paragraph</u> the second sentence should say that the Government were seeking progress in "the negotiations to reduce forces in Central Europe".

<u>Page 2.</u> In the <u>4th paragraph</u>, on Northern Ireland, consideration should be given to making the second sentence read: "They are determined to combat terrorism and to maintain individual liberty and the rule of law". The passage at the end of page 5, on legislative proposals relating to complaints against the police in Northern Ireland, should appear at the end of this paragraph.

<u>Page 2.</u> <u>The final paragraph</u> should begin: "My Government are pledged and determined to continue the attack on inflation ...". The second sentence should begin: "Success in this joint effort is essential for creating more jobs and for achieving the aim ...".

<u>Page 3.</u> The <u>3rd paragraph</u>, on offshore oil, could be omitted; but it was suggested that a reference should be inserted to the Coal Industry Bill, which was only a second priority Bill but which would contain provisions relating to the National Coal Board's borrowing limit which could become essential.

<u>Page 3.</u> It was suggested that the <u>last line</u> should say that legislation would be introduced "to extend fishing limits to 200 miles at the beginning of 1977"; but whether this could safely be said would depend upon whether it was certain that the necessary legislation could be passed before Christmas.

<u>Page 4, 3rd paragraph.</u> It was appropriate to refer to "legislative proposals" on industrial democracy, a term of art which would cover the presentation either of a Bill, or of a White Paper which might have a draft Bill attached. This paragraph contained no reference to consultations following the publication of the Bullock Committee's Report. It was argued that such a reference should not be inserted because it would be interpreted by the Trades Union Congress as a weakening of the Government's undertaking to introduce legislation in the coming Session. On the other hand, some strong supporters of industrial democracy would be anxious to ensure that there were adequate consultations before legislation was introduced, and in practice consultations would undoubtedly be needed. It was therefore agreed to add, at the end of this paragraph, the words: "and the necessary consultations have taken place". It was also suggested that, since it would not be possible to enact industrial democracy legislation next Session, this would make it the more important to introduce next Session the legislation on occupational pensions schemes, which had the unanimous support of the Trades Union Congress.

Page 4. The final paragraph should contain a reference to priority for the problems of inner cities, and the reference to proposals for a future strategy for housing should be made more explicit.

Page 4. The 4th paragraph, which reaffirmed basic Labour philosophy, was misplaced, and should appear as the final paragraph of the Speech, thereby avoiding an anti-climax.

Page 5, 2nd paragraph. The annual increase in pensions and other social security benefits would now have taken place before the Opening of the new Session, but the wording of this paragraph should nevertheless stand.

Page 6, 1st paragraph. The reference to Scottish housing subsidies was in square brackets because policy was not yet agreed, but policy was expected to be settled before the Speech was delivered.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had agreed a number of amendments to the two draft Speeches. They had also identified several points where amendments should be considered, and the Lord Chancellor, in consultation with the Ministers concerned, should now prepare amendments of these passages. Any Ministers with suggestions for improving the language of passages on matters for which they were responsible should give the Lord Chancellor their suggestions. The Cabinet had reached no conclusions on which Bills should be promised in the Opening Speech. The QF Committee should meet again to consider this question in the light of the decision to defer the start of the new Session until 24 November, which might mean that one or two Bills mentioned in the draft Speech would have to be omitted. The Committee should be attended for this purpose by the Ministers responsible for the Bills which were in question. The Lord Chancellor should report back to the Cabinet the conclusions reached by the Committee on priorities among the Bills and on which Bills should be promised in the Speech, and should also circulate a revised version of the Opening Speech. The Cabinet would then resume their discussion.

The Cabinet -

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

THE UNITED KINGDOM PRESIDENCY OF THE EUROPEAN COMMUNITY

Previous Reference: CM(76) 9th Conclusions, Minute 1

4. The Cabinet had before them the following memoranda on the British Presidency of the European Community:

A note by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 92) covering a paper by officials on the handling of the British Presidency.

A note by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 93) covering a paper by officials on the main issues likely to confront us in the Community in the run-up over the next few months to the Presidency.

A note by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 94) on administrative preparations for the Presidency.

THE FOREIGN AND COMMONWEALTH SECRETARY said that CP(76) 92 listed the main issues which we should face during the Presidency and recommended the general approach which we should adopt. Several of the specific issues mentioned in the note would come up separately for Ministerial discussion and decision as the occasion arose. He had in mind to bring before Cabinet in early December a further assessment of priorities in the light of developments up to then. The other two memoranda were essentially background material.

In discussion there was a general welcome for the approach set out in CP(76) 92. In particular it was agreed that it would be important for us to make every effort to promote constructive Community action to deal with the problems of production and unemployment both in the United Kingdom and throughout the Community. It was noted that a memorandum on our strategy in relation to the Common Agricultural Policy would be coming forward shortly after further discussion among the Ministers mainly concerned.

THE PRIME MINISTER, summing up a brief discussion, said that in agreeing to the approach to the handling of our Presidency set out in CP(76) 92 the Cabinet were fully aware of the additional responsibilities which would fall during this period to individual Ministers. It was important that we should discharge those responsibilities well and it would help us to do so if we took every opportunity to portray our action and objectives as "communautaire".

The Cabinet -

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

Cabinet Office
28 October 1976

CM(76) 30th Conclusions

COPY NO 76

CABINET

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

THURSDAY 4 NOVEMBER 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 Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury (Items 1-4)

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury (Items 2-5)

SECRETARIAT

Sir John Hunt
Mr W I McIndoe (Item 1)
Mr D le B Jones (Items 2-5)
Mr J A Marshall (Items 3-5)
Mr A D Gordon-Brown (Item 1)
Mr C J Farrow (Item 2)

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 20 July timetable motions had been passed for the remaining Commons stages of the Education and Rent (Agriculture) Bills, the Dockwork Regulation and Health Services Bills, and the Aircraft and Shipbuilding Industries Bill. The three supplementary motions on 8 November, each of which could be debated for up to one hour, would allot six hours for the first consideration of Lords amendments on each Bill and three hours for any other messages from the Lords. There would be protests from the Opposition, but each of these Bills, and particularly the Aircraft and Shipbuilding Industries Bill, had already taken far more time in the Commons than was usual even for major legislation.

THE LORD PRIVY SEAL said that it would not be possible adequately to discuss all the Lords amendments to these Bills in the course of six hours for each Bill; there were 58 amendments to the Aircraft and Shipbuilding Industries Bill alone. When the Bills were returned from the Commons, the Lords would be likely to argue that the Commons had rejected some of their amendments without discussion, or without proper discussion, and that some important provisions had been guillotined twice and never properly discussed on the Floor of the Commons at all. It would be of some presentational value, and might help to reduce the number of further exchanges of messages between the two Houses, if eight hours could be allowed rather than six.

In discussion it was pointed out that the Opposition in the Commons had not so far pressed for more time, and the three supplementary motions had now been placed on the Order Paper. It might nevertheless be worth offering extra time on the Bill, or the two Bills, which had attracted the greatest number of Lords amendments. In countering Conservative protests it might be useful to cite the example of the last Conservative Government in forcing their Industrial Relations Act through Parliament.

THE PRIME MINISTER, summing up a brief discussion, said that the Government should not volunteer any alteration in the three supplementary motions. If, however, the Opposition were to press for more time, it might be worth conceding a further two hours on one or two of the Bills if that would ease the position when these Bills were returned to the Lords and reduce the likely number of subsequent exchanges between the two Houses.

The Cabinet -

Took note.

RECOVERY OF ROAD ACCIDENT TREATMENT COSTS

Previous Reference: CM(76) 17th Conclusions

2. The Cabinet considered a memorandum by the Secretary of State for Social Services (CP(76) 97) on the proposed Bill to recover from motorists through insurance companies the full costs to the National Health Service (NHS) of treating road accident cases.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that when the Cabinet had considered public expenditure on 19 July he had proposed to save £20 million in 1977-78 and £40 million in a full year by legislation to recover, mainly from insurance companies, the full costs to the NHS of treating road accident cases. If this proposal which had not at that stage been worked out in detail did not prove practicable he had undertaken to find alternative savings in 1977-78. He was still ready to proceed with legislation if the Cabinet so wished; a detailed scheme had been agreed in Home Affairs Committee, there had been extensive consultation with interested parties and the Bill was nearly ready. There were, however, changes in circumstances since July which led him to feel that there were better alternatives. The pressure on the legislative programme in 1977-78 had become more acute and there would be great advantage in eliminating the need for one Bill. From the consultations which had taken place it was evident that the Bill would be controversial. The Bill would also be more difficult to defend to the House than he had anticipated because it had been decided in recent Public Expenditure Survey Committee discussions that the revenue it generated in the years after 1977-78 could not be used to sustain additional expenditure for the NHS but should, for all practical purposes, be merged with the general revenue from taxation. Finally the public expenditure position had become graver since July and there would be a corresponding attraction in alternative ways of raising revenue which could be made effective for the whole of 1977-78 rather than for the half year which was the most that could be achieved with his legislation. He therefore considered that it would be preferable to collect an amount equivalent to the relevant NHS treatment costs by an increase in Vehicle Excise Duty (VED). The charge for this purpose could be a distinct element which could be accounted for separately and adjusted periodically as these costs changed. The charge could be made by a provision in the 1977 Finance Bill, thus eliminating the need for specific legislation and raising a full year's revenue.

In discussion it was pointed out that there had been a clear commitment in July either to introduce the Bill or to make alternative savings. To raise additional taxation by means of an increase in VED was not a satisfactory alternative and would not enable the Government to keep within the agreed limits for public expenditure. There were well-established objections of principle to hypothecating tax revenue as was involved in this proposal. The alternative possibility of increasing the NHS component of the national insurance contribution was equally unacceptable. It would mean that the costs were met by the population at large whereas the principle behind the legislation was that motorists should pay for the costs they brought about. An additional provision in the Finance Bill to increase the VED would also be controversial. While a review of all transport taxes was needed, and was indeed already under way, this could not give results in the short term. The alternatives were therefore to continue with the Bill or to cut public expenditure either in the health service or on other programmes.

In further discussion it was argued strongly that although the Home Affairs Committee had approved the detailed scheme for recovery of accident costs further work suggested that it was open to serious objections. These were so serious that they cast doubt whether the legislation could be carried in Parliament in the form proposed, and whether if carried it would yield the expected revenue.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet appreciated that the possibility of increasing VED had been put forward as a constructive alternative to the legislative pressures which would arise from a Bill to permit recovery of road accident treatment costs. Nevertheless the Cabinet reaffirmed the decision which they had taken in July that either a Bill should be introduced which would permit charges of £20 million to be levied in 1977-78 or alternative savings should be found by the Secretary of State for Social Services. If the Secretary of State for Social Services felt in the light of the criticisms which had been made of the proposed Bill that he should seek alternative expenditure savings he should bring the matter before Home and Social Affairs Committee.

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 be guided accordingly.

INDUSTRIAL SUPPORT AND POST OFFICE INVESTMENT

3. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 98) to which was attached a note by the Chief Secretary, Treasury, about the possibility of using savings on Post Office investment to cover increased expenditure on selective assistance to industry.

THE CHIEF SECRETARY, TREASURY, said that the Government had recently agreed upon, and persuaded the Select Committee on Expenditure to agree to, a changed treatment of the figures for nationalised industry capital investment. As a result, the definition of public expenditure would in future exclude that part of that capital investment which was not financed from public funds. This was a very desirable improvement, but inevitably it meant, in the year in which the change was made, that there was no baseline (in terms of what the figures on the new basis would have been had that basis been in use when the last White Paper was compiled) against which to measure alleged savings; and that made it very difficult to use such savings as an offset to excess expenditure elsewhere. In any case, even if such baseline figures could be constructed in a way which would not arouse suspicions of book-cooking among outside commentators, it would not be defensible to do it for the Post Office alone, and it would have to be done for all nationalised industries. When the needs of the British National Oil Corporation and of the new nationalised industries - British Aerospace and British Shipbuilders - were taken into account, there might well be no saving to use. More important still, any attempt to operate in this way was liable to jeopardise the credibility of the imporant new presentational change which was now winning acceptance. In his view, therefore, the savings derived from the Post Office investment programme could not be used as an offset to additional expenditure on industrial support.

THE PRIME MINISTER, summing up a brief discussion, said that it was generally agreed that it was important to do nothing which would upset the success of the new form of presentation. To have got that new presentation generally accepted was a considerable achievement by the Treasury, who should be congratulated. It would be helpful if the Chancellor of the Exchequer were to circulate a note which Ministers could have by them for reference setting out the new definition of public expenditure and the proportion this revised total bore to the Gross Domestic Product compared with the old definition. On the immediate problem before Cabinet, it was recognised that there was a real reduction in Post Office investment, which would no doubt be reflected in a lower call on the Government for financing; but it was less clear whether, given the difficulty of making the necessary assumptions about prices and private sector financing, the figures for nationalised industries as a whole on the new basis would be higher or lower than they would have been in the last White Paper, and this was an exercise which should be done. However, it was

clear that there could be no question of using such a hypothetical base-line in the White Paper to be published in January, although the situation would be different in subsequent White Papers.

The Cabinet -

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

2. Agreed that savings arising from the reduction in Post Office investment could not be offset against increases in expenditure on industrial support.

3. Invited the Chancellor of the Exchequer to circulate a note about the new definition of public expenditure.

REGIONAL AND INDUSTRIAL POLICY

4. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (CP(76) 99) reporting on a discussion in the Ministerial Committee on Economic and Industrial Policy (EI) about additional expenditure on selective assistance to industry.

THE CHANCELLOR OF THE EXCHEQUER said that in his statement of 22 July last he had said that the Government planned to increase significantly the resources available for selective assistance to industry through the National Enterprise Board (NEB) and the Scottish and Welsh Devlopment Agencies, as well as through discretionary assistance in support of the industrial strategy. The Secretary of State for Industry had put forward proposals to implement this, estimated to cost £90 million in 1977-78, £142 million in 1978-79, £195 million in 1979-80 and £216 million in 1980-81. EI had considered ways in which this additional expenditure might be offset by savings on non-selective assistance, but they had been unable to reach any agreement. The majority of the Committee did not favour making savings by ending Regional Employment Premium (REP) in the Development Areas (DA); and some members of the Committee had favoured making Regional Development Grants (RDG) more selective (eg by limiting payments in respect of very large projects which had little flexibility in location), by reducing the level of RDG in Intermediate and Development Areas (IA and DA), and by reviewing the boundaries of the Assisted Areas (AA) as a whole to reduce their coverage. These were, however, important matters of policy, and they could not be settled in a day or so. More time was needed for their consideration. Some members of the Committee had favoured making free depreciation through the tax system more selective, but in his view this would be damaging to industrial confidence. The problem for Cabinet was to decide how the extra expenditure should be offset.

THE SECRETARY OF STATE FOR INDUSTRY said that the Government's commitment to give priority to industrial development over consumption and their social objectives had not been carried out; and aid to industry had in fact gone down as a proportion of public expenditure. Industrial confidence was being eroded by such things as the surcharge on the employers' national insurance contribution and the 15 per cent Minimum Lending Rate (MLR). The industrial strategy had not been given priority. In the cuts of last July £114 million had been taken off the expenditure of his Department, and £50 million off his nationalised industries; and in his view this represented his contribution to making more resources available to the NEB. Even so, in view of the deterioration in the position since then, he was prepared to find further savings from industrial support. The REP was regarded as the least important of all the regional incentives, being equal to only 2 per cent of labour costs - far

less effective than Temporary Employment Subsidy which was worth 10 per cent. By dropping REP in the DA (but not in the Special Development Areas) £31 million could be saved in the next year, and £65 million in a full year. If changes were to be made in RDG, careful study would be required. They had already been reduced by making the mining and construction industries no longer eligible for them, and further erosion could affect confidence. They were regarded as probably the most important of the forms of regional assistance, although it might well be that the Government had been mistaken to allow them to go to large projects which could not be sited otherwise than where they were. A ceiling on individual projects should be looked at, but it would hit the British Steel Corporation, who would then want more financing from the Government in other ways. There was much to be said for ceasing to pay RDG in the IA, but this was politically very difficult. The boundaries of the AA needed revision with a view to reducing their size, since 65 per cent of the land in the country, and 45 per cent of the population, were in AA. He pointed out that of the figure of £225 million for the NEB at present entered for every year through to 1980-81, British Leyland and Rolls Royce alone would next year need more than that total, so the NEB was left with no flexibility to carry out the interventionist role which the Government had envisaged for it. It was at present nothing more than a glorified state holding company, unable to fulfil its role in the Government's industrial strategy. Lord Ryder, Chairman of the NEB, had indicated that he could probably spend another £70-£90 million next year to strengthen and assist industries. In his view the Government must find some way of making these resources available.

In discussion it was argued that if the package which had been proposed in EI by the Secretary of State for Industry were adopted, both Wales and Scotland would fare badly, and show a net reduction in support for industry. REP was the only labour-intensive subsidy there was, and it was important to the Government's supporters. There were signs that the gap between the AA and the rest of the country, which had narrowed for some time past, was beginning to widen again. This made it a bad time to reduce regional support. Indeed, it could be shown that the Special Development Areas got less than their fair share of RDG and REP was the only redress for this. The Government had already decided to reduce the male rate of REP from £3 to £2, in spite of the Manifesto commitment to maintain it, and there should be no further reduction in this assistance.

In further discussion it was argued that it would be wrong to reduce regional support which was the Government's way of guiding investment into the areas where it was needed. Indeed, the fact that private investment generally was not taking place in spite of the cut-back in the demand on resources made by the public sector suggested that market economics were not working and that there was therefore

all the more need for stepping up the activity of the NEB and the Agencies. Against this it was argued that the Government's expenditure on industrial assistance was of much less importance than such factors as 100 per cent free depreciation, the introduction of the fiscal stock appreciation provisions, and getting the MLR down to a lower level. It was easy to overestimate the capacity of Government to make selective decisions in industry. Within employment-making expenditure, it would be wrong to cut expenditure on regional policy such as RDG and REP in order to increase selective industrial assistance.

THE PRIME MINISTER, summing up the discussion, said that the Government had committed itself in July to making more resources available to the NEB and the Scottish and Welsh Development Agencies. The problem was to find the offsetting savings which would make the necessary resources available. He was not personally wedded to all the expenditure in aid of regional policy, and was prepared to believe that over time its value reduced. Nevertheless it would be very difficult simply to abolish it: the need was to wean the public gradually away from it, and the equalisation of the male and female rates of REP had been a step in this direction. What was needed was time to look at expenditure on assistance to industry to see what shifts could be agreed on within it. In preparing the White Paper, therefore, the present figures for finance for the NEB and the Scottish and Welsh Development Agencies should be entered but with a footnote to the effect that the whole field of public expenditure on aid to industry was being examined to see what resources could be shifted to the NEB and the Agencies. In accepting this line, the Cabinet also clearly accepted that, by the time the White Paper was published, they must have put themselves into a position to announce the changes which would be made. This gave them about two months to review the position, although it was recognised that the exercise could conceivably be subsumed in any wider expenditure exercise which might be necessary following the forthcoming negotiations with the International Monetary Fund. On the question of a successor to the Accelerated Projects Scheme, for which the Secretary of State for Industry was also bidding for additional money, and which was generally regarded as desirable, this should be treated as a potential charge on the Contingency Reserve on a basis to be agreed between the Secretary of State for Industry and the Chief Secretary, Treasury.

The Cabinet -

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

PUBLIC EXPENDITURE SURVEY

1978-79 and after

Previous Reference: CM(76) 28th Conclusions, Minute 2

5. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 96) covering a memorandum by the Chief Secretary, Treasury, about public expenditure in 1978-79 and later years.

THE PRIME MINISTER said that the position following their discussion on 26 October on this subject was as follows. It was agreed that the figures in the next White Paper must show no increase over those in Cmnd 6393 as modified by the statement of 22 July last. Agreement had been reached on all items except:

i. Major programmes where the outturn was "relatively uncontrollable" - viz Social Security and Export Credit Refinance, on both of which the Chief Secretary, Treasury, would report separately at a later meeting.

ii. Housing, on which the Cabinet had agreed an increase in rents saving £30 million a year, but on which all further issues remained to be settled.

iii. Expenditure by the Ministry of Agriculture, Fisheries and Food, which had not been dealt with at their last meeting.

Expenditure by the Ministry of Agriculture, Fisheries and Food

THE PRIME MINISTER, summing up a brief discussion, said that it was agreed that the additional bids in respect of the Thames Barrier and investment in pig enterprises listed in the last part of Table 6 of the Treasury report annexed to CP(76)91 were accepted, while the bid for strategic and emergency food stockpiles was, at any rate for the present, withdrawn.

The Cabinet -

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

Housing

Lending by Building Societies to Local Authorities

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he had offered to reduce local authority mortgage lending by £150 million a year gross in 1978-79 and later years if it could be agreed that the presentation of public expenditure figures could be amended so as to exclude lending by the building societies to local authorities. He was concerned that the funds which the building societies were now making available, with local authority assistance, to down-market borrowers on a case-by-case basis should be expanded through an arrangement

with the building societies whereby his Department would make block allocations to individual local authorities; but to do this it was essential to get round the present convention whereby this would then count as public expenditure (whereas the case-by-case arrangements, in which the money went direct from the building socieites to the individual borrowers, did not). He now had reason to believe that the money would be forthcoming from the building societies for such a scheme to fill the gap which would be made by the reduction in local authority lending he was now offering. However, he accepted that the present year was not a good one for making a further change in the public expenditure conventions in the forthcoming White Paper, and he was therefore content to see the change made in the following White Paper. He needed to discuss urgently with the Chief Secretary, Treasury, how this should be handled so that he could clinch the arrangements with the building societies.

THE PRIME MINISTER, summing up a brief discussion, said that it was agreed that the figures for local authority mortgage lending should be reduced by £150 million a year gross, on the understanding that before the next White Paper but one came to be published consideration would be given to a change in the accounting conventions whereby lending by the building societies to local authorities to enable the authorities to on-lend to individual mortgagors would not score as public expenditure.

The Cabinet -

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

3. Invited the Chief Secretary, Treasury, in consultation with the Secretary of State for the Environment, the Secretary of State for Scotland and the Secretary of State for Wales, to consider further the possibility of amending the public expenditure conventions in the manner envisaged.

Housing

General

THE CHIEF SECRETARY, TREASURY, said that he had been asked at the previous discussion to consider what proposals might be made for offsetting the excess housing expenditure, and he had set out the possibilities in CP(76) 96. Annex A to that paper showed how the additional expenditure might be offset within the housing programme, and Annex C set out possible options on other programmes. In his view, given that a further public expenditure exercise was possible following the negotiations with the International Monetary Fund (IMF),

it would be better not to touch the items in Annex C but to find the savings within the housing block. The Cabinet had already agreed to an increase in rents of 80p from April 1978, and he would now propose some further increase above that, together with reductions in expenditure on municipalisation and on improvements to broadly the level of 1977-78, while holding new house building also to the level of that year.

THE SECRETARY OF STATE FOR THE ENVIRONMENT reminded the Cabinet that the additional expenditure on housing was the consequence of the increase in interest rates, and that they had not yet heard how the Treasury proposed to deal with the additional burden this imposed outside the housing programme. In his view it would be quite unrealistic to take a hurried decision about the housing programme at a time when the broader exercise might well have to be started in the next two or three weeks. Annex A to the Chief Secretary, Treasury's paper would mean a collapse of the housing programme, and would cut new house building outside the stress areas (which represented half of the housing programme) to one-third of its present level. He did not regard this as a sensible way of proceeding. It was true that some Conservative-controlled councils would not undertake house building on the scale the present figures allowed; but it would be wrong to provide them with the excuse by cutting figures back. The construction industry had lost 250,000 jobs since the Government took office, and more losses were in the pipeline.

In the course of discussion the following points were made -

a. If a major cut in public expenditure had to be made, it would be preferable to make a few major policy excisions rather than to erode programmes all round. It would therefore be best to wait until it became clear what would be the upshot of the IMF negotiations.

b. Even if large cuts became necessary following the IMF talks, it was virtually inconceivable that more should be taken out of housing than was now proposed. Given that the possible cuts in Annex C were politically no easier to accept than those in Annex A, there was much to be said for accepting those in Annex A.

c. It was of very great importance that the Treasury, in talking to the IMF mission, should be able to demonstrate that public expenditure was firmly under control, and that the Government were sticking to their declared limits. For this reason it was essential to agree on ways of offsetting the increase in housing expenditure.

d. The requirement to publish a White Paper looking four to five years ahead was irksome in a situation in which the immediate future was by no means clear. Nevertheless, while it might, in calmer times, be possible to abandon the annual publication, to do so in the present situation would have a seriously adverse effect on confidence. Against this it was argued that, at a time when the economic prospects were changing rapidly, the Government would be wrong to commit themselves to particular figures for a period of years ahead. It was particularly important to avoid a situation in which the White Paper was published after it had been overtaken by events.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet had not yet reached final agreement on how to offset the additional expenditure on the housing programme. Expressed in terms of figures for England only, the additional bids totalled about £450 million. The Cabinet had agreed already on a rent increase from April 1978 which would save £30 million a year; and they had accepted the offer of the Secretary of State for the Environment to save a further £150 million a year gross on mortgage lending by local authorities. This left a further £270 million to find. The Secretary of State for the Environment had indicated his willingness to find a further £100 million from the housing programme, which meant that £170 million had to be found from other programmes, since the general view was that it was essential to be able to demonstrate to the IMF in what way the announced limits were being kept. A number of Ministers had indicated a willingness to make a contribution. The timetable would just allow the Cabinet to have one further discussion of this subject. In the ensuing week, therefore, all spending Ministers would consider to what extent they were able to contribute towards the required outstanding savings of £170 million. There was no reason why such contributions should be confined to the suggestions listed in Annex C to CP(76) 96. It would facilitate the Cabinet's next discussion if Treasury officials were to discuss possibilities bilaterally with the officials in the spending Departments. Proportionate reductions would also be needed either in the Scottish and Welsh housing programmes or in other expenditure.

The Cabinet -

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

5. Agreed that, through increases in rents and cuts in housing expenditure, a total of £280 million a year should be saved in 1978-79 and later years, and that proportionate cuts would need to be made in Scottish and Welsh expenditure.

6. Agreed that at their next meeting they should consider in what way a further £170 million (plus proportionate sums in respect of Scotland and Wales) might be saved on other programmes; and invited the Chief Secretary, Treasury, to arrange for officials to discuss the possibilities in the meantime.

Cabinet Office

4 November 1976

CM(76) 31st
Conclusions

COPY NO 76

CABINET

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

THURSDAY 11 NOVEMBER 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 Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science and Paymaster General

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 Roy Mason MP
Secretary of State for Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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 G R Denman	(Items 2 and 5)
Mr W I McIndoe	(Items 1 and 3)
Mr D le B Jones	(Item 4)
Sir Clive Rose	(Item 2)
Mr J A Marshall	(Item 4)
Mr A D Gordon-Brown	(Items 1 and 3)
Mr A K H Atkinson	(Item 5)

CONTENTS

PARLIAMENTARY AFFAIRS

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

Progress in the Legislative Programme

Previous Reference: CM(76) 29th Conclusions, Minute 1

THE SECRETARY OF STATE FOR EMPLOYMENT said that the Lords' amendments to the Dockwork Regulation Bill, which had been carried in the House of Commons the previous night, altered the definition of the cargo handling zones but left untouched the classification of work within these zones which was an important feature of the Bill. The outcome, however, appeared to be that some work which was already classified as dockwork would now be excluded. For this reason, if for no other, the Government could not bring the Bill into operation as it stood. One possibility would be to accept the Bill as amended but to introduce amending legislation next Session.

In discussion it was pointed out that the Lords, even if they wished, could not now rectify faults inherent in the amendments carried in the Commons. It would be open to them to send back any amendments which the Commons had rejected and they might be the more ready to do this in the case of amendments which had been rejected by the casting vote of the Speaker. It would also however be open to them not to send the Bill back to the Commons, in which case it would become law in its present form. The Cabinet need not take an immediate decision on the question whether the Bill would be worth retaining in its present form, but a proper assessment of this should be made very urgently particularly if there was to be any question of Government action to prevent the Bill proceeding directly from the Lords to Royal Assent. The options appeared to be to drop the Bill as having no value in its present form and as leaving dockers in a worse situation than at present; to allow the Bill to go to Royal Assent but not to make the Commencement Order until its defects had been remedied by fresh legislation next Session, if this could be carried; or to decide, on analysis, that the Bill was worth implementing in its present form whether or not its defects could be subsequently remedied.

THE PRIME MINISTER, summing up the discussion, said that the Secretary of State for Employment should urgently assess the options open to the Government in the light of the Commons' acceptance of Lords' amendments to the Dockwork Regulation Bill and circulate his advice to all members of the Cabinet as soon as possible. The Lord President of the Council, in consultation with the Ministers responsible, the Lord Privy Seal and the Chief Whip, should be ready to report to the Cabinet at their meeting the following week on the stage reached in disputes between the Lords and Commons on other major Bills, including the Race Relations Bill, and on the choices which might then be open to the Government in their further handling.

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 and the Secretary of State for Employment to proceed accordingly.

The Political and Economic Prospects

THE PRIME MINISTER said that the Government would clearly face serious problems between now and the Christmas Recess. Apart from Parliamentary difficulties surrounding the remainder of the legislative programme for this Session, the outcome of negotiations with the International Monetary Fund, though still unknown, loomed up starkly: and the latest forecasts for the economy presented a much gloomier picture than the last National Incomes Forecast. The Second Reading of the Devolution Bill was a further major hurdle. All the reserves of stamina and steadfastness, in the Government and the Parliamentary Labour Party as a whole, would be required to overcome these problems and uncertainties. But the lead must come from the Government and it was basically for them to resolve now whether to accept the alternative of a Conservative Government or to pursue with full determination the policies which would be required to see the country through this period of unprecedented difficulty. He had no doubt himself that the Government should fight the battle through but he wished to be assured that the Cabinet as a whole were ready to steel themselves to the unpalatable measures and subordination of individual interests and judgments which would be required.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet unanimously supported the view that the Government should continue to govern and should not be diverted by the present and prospective difficulties from their main strategic purpose and aims. They agreed that this statement of intent and their collective backing for it should be made widely known.

The Cabinet -

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

FOREIGN AFFAIRS

Rhodesia

Previous Reference: CM(76) 29th Conclusions, Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that Mr Richard, the chairman of the Conference at Geneva, had made a start on discussing with the participants the date for independence. Despite differences between the Nationalist delegations and the Rhodesian Front, he hoped to obtain agreement to a compromise formula shortly. The negotiations would then turn to the structure of the interim administration. At that point we should be under great pressure from the Nationalists to appoint a Governor General. Reports had appeared in the Press of views expressed by President Nyerere of Tanzania and others on this issue. It would present great difficulties for us. He wished to assure his colleagues that no decision would be taken on it without their being consulted.

The Cabinet -

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

THE QUEEN'S SPEECH ON THE OPENING OF THE NEW SESSION

Previous References: CM(76) 28th Conclusions, Minute 1 and CM(76) 29th Conclusions, Minute 3

3. The Cabinet had before them a memorandum by the Lord President of the Council (CP(76) 101) covering a revised text of The Queen's Speech on the Opening of the new Session, and the questions how much time would be available for legislation in the coming Session, which Bills should be promised in the Opening Speech and the order of priority among other Bills.

THE PRIME MINISTER said that, in addition to the Lord President's paper, he had circulated to the Cabinet the note by the Chairman of the Parliamentary Labour Party (PLP) summarising proposals on next Session's legislative programme made at a meeting of the PLP on 20 October. The main message to be taken from this was that the Government should seek to lessen the future legislative load, although 19 suggestions had been put forward for legislative action next Session none of which was in fact promised in the draft Speech or planned for introduction. The Session would be a hard one, in that the short recesses would be unprecedentedly short, and it would be crowded because of the time likely to be needed for the Scotland and Wales Bill and of the number of other Bills to be fitted in. Few Bills would be highly contentious on Party lines, but the Opposition would have ample opportunity to criticise and delay the Government's business, for instance on devolution and direct elections and on the Bills required to achieve public expenditure savings. The Lord President's paper was written on the basis that the Government intended to see next Session through to the end and to carry onto the Statute Book all the measures expressly promised in the Speech. It was important to start the Session with a legislative programme which was containable and in his view there would be no advantage in promising Bills in the Speech which there would not be time to carry through.

In discussion it was suggested, in support of the view that the legislative programme should not be overloaded, that the dates envisaged for the short recesses next Session would be very punishing for backbenchers, who should be able to spend more time in their constituencies than these dates would allow. On the other hand, it was argued that a programme containing little except unpalatable measures would be bad for the morale of Government supporters.

Text of the Opening Speech

The Cabinet then considered the text of the draft Opening Speech and the following points were made -

<u>Page 1, 3rd paragraph.</u> The second sentence might be thought to imply, incorrectly, that overseas aid was now directedexclusively towards the poorest developing countries.

This sentence should be amended to read: "Our overseas aid will continue to give increasing emphasis to the needs of the poorest developing countries".

Page 2, 5th paragraph. The reference to individual liberty in the second sentence was inadvisable, given the continued existence on the Statute Book of powers of detention without trial, and should be omitted; the reference to the rule of law would embrace the maintenance of individual liberty.

Page 3, 3rd line. The Speech should reaffirm the Government's commitment to obtaining a lasting reduction in the level of unemployment, without qualifying the reference to the level of unemployment by the adjective "unacceptable".

Page 3, final paragraph. It might have been preferable simply to say that legislation would be introduced "to enable the United Kingdom to extend fishing limits to 200 miles at the beginning of 1977"; but the formula "for the purpose of enabling the United Kingdom" to extend the limits at the beginning of 1977 was acceptable.

Page 5, 7th paragraph. The reference to the legislation on conspiracy would require amendment to reflect the decision that this Bill would now incorporate some provisions from the Criminal Justice Bill.

Page 6, 1st paragraph. The reference to legislation on housing subsidies in Scotland remained in square brackets because policy on this subject had not yet been settled; but it was hoped that the policy would be cleared in the following week.

Page 6, 3rd paragraph. It would be better to place this paragraph before the reference to other measures which would be laid before Parliament.

Official Secrets Acts. No reference to the Government's proposals for amending the Official Secrets Acts should be included in the Speech; this matter would better be covered in a separate statement or in the Debate on the Address.

Bills to be included in the Programme and promised in the Speech

The Cabinet next went through the list of Bills in Annex 3 to CP(76) 101 and considered for which of them time would have to be allowed next Session and which should be promised in the Speech. It was noted that the first 9 Bills in Part IA were those which the Cabinet had agreed in May would be Essential and that, although legislation to provide grants for harbour boards might not now be necessary next Session the other 8 Bills remained Essential. The Bills to extend the borrowing powers of British Nuclear Fuels Ltd and to extend the maximum liability limit of the Export Credits Guarantee Department had since become Essential; the Government were committed to the legislation on fishery limits; and the Cabinet had already agreed that the Speech should promise the introduction of legislation on direct elections to the European Assembly. Consideration should, however, be given to combining Essential Bills relating to financial matters. It was agreed that all the Bills listed in Part IB of Annex 3 would have to be included in next Session's programme, and that time would have to be allowed for the three Bills in Part IIB of Annex 3; of these three, the Bill on price control and counter-inflation might be long and contentious.

In discussion of the Direct Labour Organisations (DLOs) Bill, it was accepted that this Bill was properly classified Essential in that legislation would have to be introduced next Session to renew powers relating to DLOs, due to expire on 31 March 1977. It was, however, suggested that the proposal that this Bill should also extend these powers would be highly contentious and would be opposed by all the Opposition Parties; a reference to such a Bill in the Speech might attract an Opposition amendment, which might be carried. It might accordingly be better not to mention this Bill in the Speech, or to promise in the Speech only a Bill to continue existing powers; and then to consider nearer the time of introduction whether it would be advisable to include in the Bill any extension of the existing powers. On the other hand, it was argued that the extension of the present powers would be welcomed by the Government's supporters and by Labour-controlled local authorities and was important to the DLOs at a time of considerable difficulty in the building industry. It was agreed to retain the wording in the draft Speech promising legislation to remove unnecessary restrictions on the powers relating to DLOs.

In discussion of the three Bills in Part IIA of Annex 3, it was accepted that the Conspiracy Bill should be promised in the Speech; it was noted that the provisions in this Bill relating to Obscenity were now to be dropped, and replaced by provisions relating to law and order in the Criminal Justice Bill. It was also agreed that there were strong political and practical reasons, which had been reinforced by the impact of the drought in South-East Wales, for proceeding next Session with the Welsh Water Charges Bill and promising this Bill in the Speech.

The Patents Bill could also be regarded as essential in all but the technical sense. It was needed to enable the United Kingdom to ratify the European Patents Convention, and failure to ratify would have a very damaging effect upon the patents industry in this country. The Bill was uncontroversial and could be introduced in the House of Lords. The Queen's Speeches and Future Legislation Committee had suggested that this Bill should be promised in the Speech only if the Opposition had first agreed to Second Reading Committee procedure in the House of Commons; and it was argued that while the Opposition might be unlikely to give any firm undertaking to this effect at present, they would no longer have any incentive to do so if the Government committed themselves in the Speech to the introduction of the Bill next Session. As against this, it was argued that failure to mention the Bill in the Speech would result in the Government being pressed about their intentions in the Debate on the Address, and since the Cabinet agreed that the Bill should proceed, it would be better to promise the Bill in the Speech and not appear to have been forced by pressure into introducing it next Session. For the purposes of negotiating with the Opposition on Second Reading Committee procedure, a firm statement of intention in the Debate on the Address would be no different from a promise in the Speech. It was also pointed out that, although Second Reading Committee procedure would avoid the need to take Second Reading on the floor of the Commons, the same amount of time would be required on the floor for Report and Third Reading. It was agreed that the right course in the circumstances was to retain in the Speech the passage promising the introduction of this Bill.

In discussion of the Bills in Part IIC of Annex 3, it was accepted that the Bills on Homelessness and on Occupational Pensions could not in the circumstances be mentioned in the Speech, though they were both important and attractive measures to which the Government were committed. It had been stated earlier in the Session that the Government planned to introduce the legislation on Homelessness next Session, and in some respects it would be complementary to the squatting provisions of the Conspiracy Bill. The Trades Union Congress (TUC) attached great importance to the Occupational Pensions Schemes Bill, and if the Government failed to proceed with this, it would be seen as a victory for the Confederation of British Industry (CBI) who had been campaigning against it. It would therefore be most desirable to reaffirm in the Debate on the Address that the Government would introduce these Bills at the earliest opportunity, though this would need to be done in carefully chosen language and without implying that either Bill would necessarily be introduced next Session.

THE PRIME MINISTER, summing up the discussion, said that Cabinet had agreed certain amendments to the draft of the Opening Speech, and had decided that all the Bills mentioned in the draft should be included but no others. The Lord President of the Council would now prepare a revised draft for him to submit, with the draft Prorogation Speech which the Cabinet had already agreed, to The Queen. The Lord President would also give consideration to the feasibility of amalgamating Bills in Part IA of Annex 3 of CP(76) 101, and in particular numbers 7, 9 and 12. There was a considerable risk that next Session would prove to be overloaded, particularly in view of the increased difficulties presented by the state of the Parties in the House. It was also important, however, that the Cabinet should not lose sight of Bills which had a very strong claim for introduction if time allowed. Accordingly, the Lord President, with the Lord Privy Seal and the Chief Whip, should keep the progress of the legislative programme under continuous review, and make regular reports to the Cabinet. The Cabinet would then be able to consider whether any adjustments should be made in the present legislative plans.

The Cabinet -

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.

PUBLIC EXPENDITURE IN 1978-79 AND LATER YEARS

Previous Reference: CM(76) 30th Conclusions, Minute 5

4. The Cabinet had before them a note by the Chancellor of the Exchequer (CP(76) 102) covering a paper by the Chief Secretary, Treasury, about possible savings in public expenditure in 1978-79 and later years.

General

THE PRIME MINISTER, summing up a brief discussion, said that when the Cabinet discussed this matter on 4 November they had agreed that of the additional expenditure of about £450 million a year on Housing in England, £280 million should be found from the Housing programme, leaving £170 million to be found from elsewhere. To this had to be added £30 million in respect of Scotland and Wales, which meant that they were looking for total savings of £200 million. It had been suggested that, given the possibility that a further expenditure exercise might be needed when the views of the International Monetary Fund (IMF) were known, there was no point in pursuing the present savings; but the Cabinet had decided at an earlier meeting to settle the figures for 1978-79 and later years and this they should now proceed to do. In terms of the Government's bargaining position with the IMF, it might be important to show that they were planning to keep expenditure within the limits laid down in the last White Paper (Cmnd 6393). Any reductions agreed today would not be announced until January. So if there had to be a further exercise - which was not yet by any means certain - then clearly those reductions would be subsumed in the further exercise. In the meantime great care should be taken by Ministers not to say anything in public which might pre-empt the decisions which might have to be taken when the outcome of the IMF negotiations was known. The table attached to the Chief Secretary's memorandum set out the areas to which the Cabinet should look.

The Cabinet -

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

Defence

THE SECRETARY OF STATE FOR DEFENCE said that he could not accept the suggestion that a saving of £50 million be made from the Defence budget. Defence expenditure had already suffered from four cuts since March 1975, and this would be the fifth. He had to allow for the fact that the Anglo-German offset payments which had been assumed to continue probably would not do so; and he also had to cope with additional expenditure in Northern Ireland costing £10-£15 million. Cutting defence expenditure had consequences for our allies in the North Atlantic Treaty Organisation (NATO), to whom the proposal to make further cuts would have to be reported. Cuts could only be made by reducing manpower or equipment. Any reduction in manpower led to increased expenditure in the year in which it took place because of the very high redundancy payments which had to be made. He reminded the Cabinet that cuts in equipment meant a loss of jobs in industry. One hundred and forty thousand job opportunities in manufacturing industry had already been lost from defence cuts, and the Armed Forces were large customers of the aircraft, guided weapons and shipbuilding industries which were on the point of being nationalised. He also pointed out that, even when cuts had been agreed, he did not always enjoy the support of his colleagues when it came to implementing them - witness the decision not to reduce the number of hydro-graphic survey ships and the opposition to closing the Micro-biological Research Establishment at Porton.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet appreciated the serious nature of cuts in defence expenditure and the repercussions they had for NATO. Nevertheless some reduction was essential, and the balance of opinion was that a cut of £30 million should be made.

The Cabinet -

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

Overseas Aid

THE MINISTER FOR OVERSEAS DEVELOPMENT said that to accept the proposal to keep the aid programme at the 1977-78 level, which would save some £35 million in 1978-79 and later years, would mean that planned aid expenditure would not only not move towards, but would actually fall back from, the internationally accepted aid target of 0.7 per cent of the Gross National Product for official development assistance. He drew attention to the relevance of the North-South dialogue and of the possibility that in that context it might be necessary for the industrialised countries to make some concession to the developing countries. The

maintenance of and indeed the increase in, the volume of official development assistance was important, and if this were seen to be going down there was the risk that the developing countries would successfully press for a higher price to be paid in some other way.

THE PRIME MINISTER, summing up a brief discussion, said that, while there was some sympathy with the view that the overseas aid programme should, as had been the case hitherto, not be reduced the balance of opinion was that some cut should be made, given that so much of the United Kingdom's expenditure was being financed by borrowing from other countries. The balance of opinion in the Cabinet was that a cut of £5 million a year should be scored against the aid programme. This would still mean that the programme would be growing in real terms over future years.

The Cabinet -

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

Food Subsidies

THE SECRETARY OF STATE FOR PRICES AND CONSUMER PROTECTION said that the present provision of £84 million in 1978-79 and £56 million in later years was somewhat notional and in practice would cover a subsidy on milk for a time at around 1p a pint, plus an ability to take up any European Economic Community (EEC) subsidies that might become available. He would be prepared to reduce the expenditure by £25 million if the Cabinet would agree that £2-£3 million a year in 1977-78 as well as later years might then be added to local authority expenditure on consumer protection, which was an activity strongly favoured by the trade unions.

THE PRIME MINISTER, summing up a brief discussion, said that, although there might be a political connection between food subsidies and consumer protection expenditure, the two were technically unrelated and it was not possible to strike quite the kind of bargain which the Secretary of State had proposed. The Cabinet were agreed that the reduction of £25 million should be made in expenditure on food subsidies. The Secretary of State's proposal for additional expenditure on consumer protection should be very seriously considered but it should be put through the proper channels.

The Cabinet -

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

Roads and Transport (England)

The Cabinet agreed that a reduction of £10 million a year should be made in the expenditure on roads and transport in England.

Other Environmental Services (England)

The Cabinet agreed that savings of £25 million a year should be made from expenditure on other environmental services in England, of which £20 million would come from the expenditure of Regional Water Authorities and £5 million from miscellaneous expenditure other than the Community Land Scheme.

Education and Science (England)

THE PRIME MINISTER, summing up a brief discussion, said that this block had already absorbed some additional expenditure, but Cabinet were agreed that a further £25 million a year could be saved. One way in which such a saving might be made would be an increase in the charge for school meals over and above the increase to 25p in 1977-78 already agreed. This however was purely illustrative and the Cabinet was not, in agreeing to the £25 million reduction, taking any specific decision about how the cut would be made or whether it would be achieved wholly or partly through an increase in school meal charges. There were in any case other ways of cutting the net cost of the school meals service, and these would need to be examined.

The Cabinet -

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

Health and Personal Social Services

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet were agreed that a saving of £25 million a year should be made, probably made up of £10 million from an increase in dental charges, £5 million from capital expenditure reductions and £10 million from drug costs (other than an increase in prescription charges).

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 there must be doubt whether the Affirmative Resolution which would be needed to withdraw entitlement to flat rate unemployment benefit for the first six days of any period of temporary suspension could be obtained in the present Parliamentary situation; while the withdrawal of supplementary benefit from students in the long vacation, if added to the Social Security (Miscellaneous Provisions) Bill was likely to prove so contentious that it might endanger the whole Bill. In this situation the Cabinet agreed that a saving of £25 million should be made in the net exchequer cost of child benefit by phasing out child tax allowances for non-resident children from 1978-79 onwards.

The Cabinet -

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

Office and General Accommodation Services

The Cabinet agreed that a saving of £5 million should be made in this expenditure.

Scotland and Wales

THE PRIME MINISTER, summing up a brief discussion, said that, since there was no additional bid for housing from Scotland, there was no justification for further cuts in Scottish expenditure on this account. The Cabinet were, however, agreed that a reduction of £5 million should be made in Welsh expenditure.

The Cabinet -

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

General

THE PRIME MINISTER, summing up the whole discussion, said that the Cabinet had now agreed cuts totalling £180 million in 1978-79. This was sufficiently near to the £200 million which had been their original aim bearing in mind that the object of the exercise was to show figures to the IMF and in the next White Paper which were

broadly in line with those in Cmnd 6393. The Cabinet had been discussing expenditure in 1978-79, but comparable savings would be needed in 1979-80 and 1980-81, and in most cases this would mean a repetition in the later years of the saving in 1978-79. Any variation from this should be settled in bilateral discussion with the Treasury.

The Cabinet -

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

THE EUROPEAN ECONOMIC COMMUNITY UNIFORM PASSPORT

Previous Reference: CM(76) 9th Conclusions, Minute 4

5. The Cabinet had before them a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 100) on the European Economic Community uniform passport.

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that the Cabinet at their meeting on 11 June had authorised him to seek Community agreement on a layout of the front cover of the proposed EEC uniform passport which would place the name of the issuing State and the national arms above the reference to the European Community. Cabinet had also agreed that the use of languages should conform with existing international practice, whereby issuing States use their own language plus English or French. Following discussions in the Community he now sought the agreement of his colleagues to a Presidency compromise which largely met these requirements, in that it would place the name of the issuing State, thought not the national arms, above the reference to the Community; would in relation to languages preserve the existing practice of Member States except that an index page in all seven languages of Member States would be added; and would limit Community competence to the form of the passport.

THE PRIME MINISTER, summing up a brief discussion, said that the Foreign and Commonwealth Secretary had done well in securing the substance of our requirements. It would be some time before fresh nationality legislation could be passed and the uniform passport introduced in the United Kingdom. Although some hesitations had been expressed about some of the details, the Cabinet agreed that the Foreign and Commonwealth Secretary should accept the best compromise he could obtain on the lines set out in CP(76) 100.

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

11 November 1976

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CM(76) 32nd Conclusions

COPY NO 76

CABINET

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

THURSDAY 18 NOVEMBER 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 Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury
(Items 1 - 3)

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Items 4 - 6)

SECRETARIAT

Sir John Hunt	
Mr G R Denman	(Item 2)
Mr W I McIndoe	(Items 1 and 5)
Mr D le B Jones	(Items 3, 4 and 6)
Sir Clive Rose	(Item 2)
Mr J A Marshall	(Items 3 and 4)
Mr A D Gordon-Brown	(Item 1)
Mr C J Farrow	(Item 6)

CONTENTS

PARLIAMENTARY AFFAIRS

Aircraft and Shipbuilding Industries Bill

Previous Reference: CM(76) 31st Conclusions, Minute 1

1. THE LORD PRESIDENT OF THE COUNCIL said that the House of Commons would be considering that afternoon whether to reject the message from the House of Lords insisting on the exclusion of ship-repairing from this Bill. There were 3 options open to the Government. First, to accept the Bill this Session without ship-repairing, as a fulfilment of most of the Government's commitment. Second, if the Lords would not give way, to lose the Bill this Session and reintroduce it next Session under the Parliament Act. Third, to accept the Bill this Session without ship-repairing and introduce a Bill next Session to nationalise ship-repairing. If the Commons sent the Bill back to the Lords that afternoon, there was a possibility that the Lords would then kill the Bill by referring it to the Examiners on the question of hybridity and not by insisting on their amendments to exclude ship-repairing. In his view it would be disastrous to abandon ship-repairing now, and the right course - if the Lords would not give way - would be to reintroduce the Bill next Session under the Parliament Act. This would mean the loss of a further 2 days, or possibly 3, in the Commons early in the Session. It would probably not be possible, however, to take the Second Reading until after the Cambridge by-election. After Second Reading the procedure might be to put down a Motion to truncate the remaining Commons stages. The Bill would then have to go to the Lords, who might spin it out until the end of the Session, delaying Royal Assent until then. There would, however, be a chance of the Lords giving way when the Bill was sent up once more from the Commons, as they had done earlier in the present Session on the Trade Union and Labour Relations (Amendment) Act, in which case Royal Assent might be reached by Easter. There could be no guarantee of being able to get a separate Bill on ship-repairing on to the Statute Book next Session; the Lords might wreck such a Bill and it would not then be possible to use the Parliament Act until the Session after next. If it were decided to proceed under the Parliament Act next Session, it might be necessary to drop a Bill from the legislative programme to make room, probably the Conspiracy Bill.

THE SECRETARY OF STATE FOR INDUSTRY said that he had sent a minute to the Prime Minister and all members of the Cabinet on 16 November, in which he had set out his assessment of the situation, had proposed that the Government should do everything possible to deter the Lords from their ship-repairing amendments and had reached the conclusion that it would be preferable to lose the Bill this Session rather than give way to the Lords on a major issue of principle. There was no doubt about the firm and public nature of the Government's commitment to the nationalisation of ship-repairing, which had been spelt out in both the 1974 Election Manifestos. The Bill had recieved its Second Reading last December and had been exhaustively debated in the Commons. The Government had not lost a single vote on this Bill in the Commons, and their supporters, who had worked very hard to get the Bill through, would not understand if the Government now asked them to give way to the Lords, and to vote

in the same lobby as the Opposition to save Mr Bailey of Bristol Channel Ship-Repairers from nationalisation. He had consulted leading members of the Confederation of Shipbuilding and Engineering Unions, who had expressed the view that it would be better to make every effort to obtain the whole Bill this Session, even if the effort did not succeed, rather than to lose ship-repairing. Mr Willey and Mr Blenkinsop had expressed the same view to him. There was no doubt that the only way to manage the affairs of the aircraft and shipbuilding industries sensibly was to bring them into public ownership, and there would be considerable difficulties in the short term if nationalisation was held up. The British Aircraft Corporation would be in difficulties and would be unable to start new projects, and Swan Hunter would probably collapse. Warship building was profitable, but merchant shipping yards would be in severe difficulties in any event, and there might be as many as 30,000 redundancies. This situation could be managed much better under nationalisation. Nevertheless in his view the only course was to stand firm. The Lords should be warned of the grave consequences of resisting the will of the Commons, and it might be desirable to consult the Parliamentary Labour Party. If necessary, the Parliament Act should be invoked next Session, taking the Bill through the Commons as early as possible in the Session.

In discussion it was suggested that, although the behaviour of the Lords deserved the strongest condemnation, they were nonetheless likely to insist upon the exclusion of ship-repairing. Reliance on the Parliament Act next Session would at best involve a long delay in bringing the aircraft and shipbuilding industries into public ownership. There could be no certainty of getting the Bill through next Session; and the Government might end up with no legislation at all. The better course might be to secure the nationalisation of the two major industries this Session and to introduce a Bill next Session to nationalise ship-repairing. Otherwise two major industries would be put at risk, with adverse effects on order books, and possibly massive unemployment in the shipbuilding industry under the present Government. It would be essential to have a contingency plan for dealing with such a situation. Trade Union leaders might now argue for standing firm, but it was not so clear that workers on the shop floor would take the same view when the consequences began to be felt; and the Government's support might well be affected adversely in a number of constituencies. The Lords had nothing to fear from the Government during the life of the present Parliament. A one chamber Parliament would not be an electorally attractive proposition

As against this it was strongly argued that the Lords were taking upon themselves to reject an important part of legislative proposals which had been put before the country in two General Elections and had then been passed through the Commons without a single defeat. The Lords were seeking to absolve themselves of the blame for the consequences of this action and it might be that some of the odium would fall upon the Government. It was, however, intolerable and unconstitutional

for the non-elected chamber to interfere in this way with a major measure passed by the elected chamber. The Lords ought to give way, and if they did not, there might well be long term effects on relations between the two Houses. If the Government did not stand firm, the effect on labour backbenchers would be disastrous.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet were firmly of the view that the Lords amendments to exclude ship-repairing from the Bill must be rejected by the Commons that afternoon. Some members of the Cabinet had expressed doubts whether, in the event of the Lords then refusing to give way, it would be prudent to lose the entire Bill this Session, and there might be a need for further consideration by the Cabinet on Monday 22 November. The Government could not allow their programme for next Session to be affected by the behaviour of the Lords, and the legislative proposals in The Queen's Speech should all be maintained. If, because of the need to invoke the Parliament Act next Session, it was not possible to complete some other measures it would be clear where the blame lay.

The Committee -

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

Education Bill

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that the Lords, who would be considering that afternoon the Commons' message rejecting most of their amendments to this Bill, might decide to press two of their amendments. One of these would make the comprehensive principle subordinate to the principle of parental choice and would seriously weaken the Bill; the other would remove from the Bill the power to control the take-up by local education authorities of places at independent schools. If the Lords were to emasculate the Bill in this way it might be necessary to lose the Bill this Session and reintroduce it next Session under the Parliament Act. This would take up more Parliamentary time next Session, but there would be no difficulty about getting the Bill through the Commons. She hoped that the Lords would not stand out to the end against the will of the Commons, but it might be necessary to send the Bill back to the Lords a third time.

The Cabinet -

2. Took note.

FOREIGN AFFAIRS

Rhodesia

Previous Reference: CM(76) 31st Conclusions, Minute 2

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that, at the *Conference in Geneva*, Mr Richard was still trying to obtain acceptance of his formula on the independence date. Discussions were still going on with Mr Nkomo and Mr Mugabe, who had so far been unwilling to agree. If agreement could be reached the talks would then move on to discuss the structure of the interim government and we should be faced with the major question of what role we should play in Rhodesia during the interim period. He would be putting a paper on this subject to the Cabinet for consideration next week.

The Cabinet -

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

Iceland

THE FOREIGN AND COMMONWEALTH SECRETARY said that he wished to warn his colleagues of the possibility that on the termination of our fishing rights under the Oslo Agreement on 1 December the 24 British trawlers fishing in Icelandic waters might be required to leave by the Icelandic Government. Action of this kind would clearly cause a major outcry: but this outcome was not yet certain. He was giving careful consideration to possible courses of action on our part.

The Cabinet -

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

IMF NEGOTIATIONS

3. The Cabinet discussed the negotiations with the International Monetary Fund. Their discussion and the conclusions reached are recorded separately.

RATE SUPPORT GRANT

Previous Reference: CM(76) 27th Conclusions, Minute 4

4. THE CHANCELLOR OF THE EXCHEQUER said that at their discussion on 21 October the Cabinet had agreed that the Rate Support Grant for England and Wales for 1977-78 should be 62 per cent and that the settlement in Scotland should be on a similar basis. However, that decision had been taken before the Government had known of the attitude the International Monetary Fund (IMF) would be taking, and for this reason he wished to reopen the earlier decision. The formal position was that the local authorities would be informed of the Government's conclusion at the statutory meeting on the following Monday, 22 November, although some hint had been given to them informally of the likely level of settlement. In his view the prospect that the public sector borrowing requirement (PSBR) would need to be reduced next year made it highly desirable to reduce the Rate Support Grant to 60 per cent, thereby saving £220 million on the PSBR. A further reduction in the rate of grant was the only way of applying an additional squeeze to local authority expenditure; and although it would be possible to announce 62 per cent at the statutory meeting, and then to change it at a later stage, it would be acutely embarrassing and it would be far better to decide in favour of the lower figure immediately.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that he had investigated the possibility of delaying the statutory meeting beyond 22 November. If this were done, it would mean that the Parliamentary consideration of the Order which would have to be made would be delayed until after the Christmas Recess. There was no precedent for delaying the statutory meeting, but in 1973, at the height of the oil and coal crisis, there had been a second statutory meeting to change the rate of grant. In his view it would be impossible to defer the meeting without his making a statement in the House of Commons, and this would create alarm and foster a crisis atmosphere. He did not therefore recommend that course. He pointed out that the earlier decision in favour of 62 per cent implied a cut of 3½ per cent compared with the level of grant in 1976-77. This would be the most severe cut ever made. On top of this, the local authorities looked like being some £150 million over their planned current expenditure for 1976-77, wholly for reasons outside their control. Strict adherance to the cash limits laid down for the Rate Support Grant this year would mean that that sum would be left for the local authorities to bear, although in that case he felt that the Government should not make the cut of £50 million in the Increase Order which they had announced earlier. If the 1977-78 grant figure were reduced to 60 per cent, the combined increase in rent and rates for council tenants would be as much as £1 a week. Politically it would be very important to retain the co-operation of the responsible Labour councils, which he had done much to foster, and in his view a reduction to 60 per cent would not be consistent with retaining that co-operation. There could be a considerable feedback from the Labour councils to the Parliamentary Party, and it could even be difficult to get the necessary Rate Support Grant Order through the House of Commons. It was even

possible that the lower rate of grant would produce, not reduced expenditure, but higher expenditure coupled with a higher rate demand, with the Government being blamed.

In discussion it was suggested that it was unreal to think of settling this issue at the present meeting. If the statutory meeting with the local authorities could not be postponed, the right course was to announce 62 per cent as the Government's decision the following Monday, but to make it clear that some change was not impossible as part of the consideration of the IMF package, thus putting local authorities on warning that a second statutory meeting might be needed later. If this course were adopted it would avoid the difficulty of trying to decide the local authority element in the possible package of public expenditure reductions in isolation from the rest of the package. However, it was argued against this that it would lead to a chaotic situation for the local authorities. On the other hand, to announce 62 per cent as the Government's final view was effectively to exempt the Rate Support Grant and local authority current expenditure from the wider cuts which might prove necessary. It was pointed out that special difficulties arose in Scotland, where, because of the absence of any substantial local authority balances, the proposed level of 62 per cent would lead to average rate increases of some 18½ per cent (compared with 10 per cent in England), while a grant level of 60 per cent could mean an average rate increase in Scotland of 26 per cent, with some rate poundages rising to over £2 in the pound. Moreover, local authorities in Scotland unlike those in England and Wales could not contain current expenditure within the limits laid down in the last Public Expenditure White Paper (Cmnd 6393) without significant redundancies. Such a prospect could be disastrous for the 1977 municipal elections. It might be possible in England and Wales to move from 62 per cent to 61 per cent for the 1977-78 level of grant; but this was not acceptable in Scotland.

THE PRIME MINISTER, summing up the discussion, said that the Committee were agreed that the Rate Support Grant in England and Wales for 1977-78 should be fixed at 61 per cent, and this could be announced at the statutory meeting on 22 November. Furthermore, the local authorities would be told that the Government would insist on strict adherence to the cash limit laid down for the grant in 1976-77 so that they would have to cope themselves with their forecast excess current expenditure this year of £150 million, and would insist upon the cut of £50 million in the Increase Order which had been announced some time ago. On Scotland the position was somewhat confused and it was difficult for Cabinet to handle the matter in the absence of papers. Since a decision was wanted in time for the meeting on 22 November, it was agreed that the best course would be to remit the matter to a small group of Ministers who could reach a conclusion on it on Cabinet's behalf. The Home Secretary might chair such a group, which should consist of the Secretaries of State for the Environment, Northern Ireland, Scotland, Wales and Trade, the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury. The Group's task would be to decide on the Rate Support Grant arrangements to be adopted for Scotland in the light of the Cabinet decision on England and Wales.

The Cabinet -

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

2. Agreed that the Rate Support Grant for England and Wales for 1977-78 should be, not 62 per cent as had been decided on 21 October, but 61 per cent.

3. Invited the Secretary of State for the Home Department, in consultation with the Secretaries of State for the Environment, Northern Ireland, Scotland, Wales and Trade, the Minister of Agriculture, Fisheries and Food and the Chief Secretary, Treasury, to consider and decide upon the Rate Support Grant arrangements to be adopted in Scotland in the light of the decision which had been taken in respect of England and Wales.

OFFICIAL SECRETS ACTS AND OPEN GOVERNMENT

5. The Cabinet had before them a note by the Prime Minister (CP(76) 108) seeking their endorsement of the conclusions of the Ministerial Group on Official Information on the reform of the Official Secrets Acts and on more extensive publication of official information. A note by the Prime Minister (CP(76) 107), covering the report of Lord Houghton's Committee on Cabinet Document Security, was also relevant.

THE PRIME MINISTER said that the broad effect of the conclusions of the Ministerial Group was to follow the recommendations of the Franks Committee in narrowing the protection of criminal sanctions to specific categories of official information but to modify those categories so as to make the package more liberal in respect of information broadly dealing with home and economic policy, which included the bulk of Cabinet documents; and somewhat more restrictive in respect of information in the fields of intelligence and security, defence and international relations. He believed that most people would understand and support a package which was overall more liberal than Franks and the consistent theme of which was broadly to regard unauthorised disclosures about domestic affairs as likely to cause political embarrassment to the Government of the day but not serious damage to the national interest, and therefore not to justify criminal sanctions. On measures to achieve more open government the Group's conclusion was that the Government's policy of making official information more readily available should be further developed and that there should be a greater readiness to publish the factual and analytical material associated with major studies, such as Programme Analysis and Review studies (PARs), but that any system involving automatic publication or a public right of access would be unworkable or too costly to administer. He invited the Cabinet to endorse the conclusions and to agree that a suitable opportunity should be taken to announce them in Parliament on the lines of the draft statements attached to his note. It would be helpful if his colleagues would also indicate whether they saw, or were likely to see, any objections to his proposal to publish the report of Lord Houghton's Committee on Cabinet Document Security and to announce the Government's broad acceptance of its recommendations.

In discussion it was argued that since there was no question about the need to continue to safeguard the confidentiality of Cabinet and Cabinet Committee proceedings and of a great deal of economic information, relating not only to the reserves but to such sensitive matters as relationships between the Government and particular firms, there would be risks in removing from these matters the protection of criminal sanctions, to the extent that these acted as a deterrent against unauthorised disclosure. Against this, it was pointed out that the real issue was not whether particular information should continue to be confidential, which must clearly be the case over a wide range of matters, but whether the Government could, with public support, invoke the criminal law against unauthorised disclosures. The

suggestion was made, however, that the draft statement should seek to avoid any misunderstanding on this score by making it clear that the normal sanctions of Civil Service rules of conduct would continue to apply.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the conclusions set out in CP(76) 108 and in the draft statements annexed to it. The Home Secretary should now finalise the draft statement on the reform of the Official Secrets Acts, taking into account any minor amendments which his Cabinet colleagues wished to suggest, including the suggestion, which had been made in the discussion, that mention should be made of the continuing application of Civil Service rules of conduct to all cases of unauthorised disclosure. The statement should be made at an early opportunity and in any case not later than at the beginning of the new Session. Thereafter further detailed work on the Franks Committee's recommendations would proceed under the supervision of the Home Secretary in consultation with other Ministers as required, with any major issues being referred to the Ministerial Group on Official Information. He would himself take an opportunity in his speech on the Debate on the Address to refer briefly to the Government's intention to publish as much as possible of the factual and analytical material associated with major policy studies including such material in PARs. The Cabinet had also noted, and raised no objection to, his intention to arrange for early publication of the report of Lord Houghton's Committee on Cabinet Document Security and to announce the Government's broad acceptance of its recommendations.

The Cabinet -

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

2. Invited the Home Secretary to make an early announcement of the Government's conclusions on the reform of the Official Secrets Acts.

3. Took note that the Prime Minister would take a suitable opportunity in Parliament to refer to the Government's intentions on greater openness.

4. Took note that the Prime Minister would arrange for early publication of the report of Lord Houghton's Committee on Cabinet Document Security and announce the Government's broad acceptance of its recommendations.

SAFETY REPRESENTATIVES

Previous Reference: CM(76) 24th Conclusions, Minute 5

6. The Cabinet considered a memorandum by the Secretary of State for Employment (CP(76) 103) making revised proposals for the implementation of regulations under the Health and Safety at Work Act 1974, taking account of a report by officials on the costs of implementation in the public sector which was appended to his memorandum.

THE SECRETARY OF STATE FOR EMPLOYMENT said that as a result of the further study by officials which had been agreed at the Cabinet's previous discussion of this question the local authority associations had agreed that their previous estimates of the costs of introducing the draft regulations were unreasonable and could be halved from £88 million to £44 million. Officials still took the view that the cost would be less than this. In deciding what should be done the Cabinet should recall that the Health and Safety at Work Act had been one of the first measures of the Labour Government in 1974. In the period since the Act was passed unanimous agreement had been reached in the Health and Safety Commission (HSC) - which included representatives of the Confederation of British Industry and of the local authorities - on the draft regulations and there was extremely strong pressure for them to be brought into force without undue delay. Given this strong pressure for action, but taking account of the financial pressures of the local authorities, there were in theory three possible courses of action. The first would be to implement the regulations immediately but to exclude the local authorities and the National Health Service from their scope. This was no more than a theoretical option. There were no arguments of principle by which to defend it and its effect would be to attract criticism of the Government for not acting in the public sector rather than credit for taking action in the private sector. The difficulties would be the greater since the trade unions affected covered both the private and the public sectors. A second alternative would be to bring the draft regulations into effect during 1977 and to provide an additional £10 million to the local authorities through the Rate Support Grant. If this were done he would use his influence to try to ensure that the costs falling on the local authorities did not exceed this amount. Provisions for finance in subsequent years could be considered in the light of practical experience of costs actually incurred. The third option would be to make the regulations right away but not bring them into effect until 1 April 1978. Deferral for as long as this would undoubtedly give rise to protest but he thought that he could justify such a course by emphasising that the making of the regulations made them a firm commitment, and putting emphasis on the financial stringency faced by the local authorities. Deferral for longer than this, or a lesser commitment, could not be defended.

In discussion it was argued strongly that while the extent of disagreement about the costs between the local authority association and Departments had been reduced a substantial margin of disagreement remained. Implementation of the regulations would bring benefits in the longer term but they were unquantifiable. In the immediate future implementation would cause severe problems with the local authorities. The Rate Support Grant settlement would put them under great pressure and it would be intolerable to require them to bear an additional burden, whether it was £25.5 million as officials estimated or £40 million as the local authorities estimated. The authorities pointed out that time and again the Government simultaneously called on them to reduce their expenditure and required them to meet the cost of new measures. At a time when they were being required by financial pressures to close facilities and to make staff redundant it would be wholly unjustifiable to introduce new provision which would intensify these pressures. The Scottish local authorities, in consultations over the level of Rate Support Grant, had expressed particular concern about the effect of implementation of these regulations. Similar problems would arise with the National Health Service, where there was an additional difficulty that there were staff associations not recognised for the purposes of the regulations.

In further discussion it was argued that in the difficult circumstances it would be preferable to take no decision on the regulations as they stood, but to consider the possibility of introducing only those parts which would not entail significant costs (for example the provision for safety committees) and of finding some means to limit the costs which, as the regulations stood at present, were liable to be inflated by abuse of the rights they conferred.

THE PRIME MINISTER, summing up the discussion, said there was a clear feeling within the Cabinet that at a time when the local authorities were being subjected to severe financial pressure, which was leading to the closure of facilities and redundancies amongst their staff, it would not be right to impose an additional financial burden upon them. The general view was that the regulations should not be brought into effect in 1977-78. The matter would need to be handled with great care with the trade unions and the Secretary of State for Employment should discuss with the HSC and the Trades Union Congress possible arrangements for phasing the regulations in at a later date. He should also give consideration to the possibilities raised in discussion that some parts of the regulations might be introduced at much lower costs, and that means should be found to avoid the possible danger of abuse in a minority of cases.

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 proceed accordingly.

Cabinet Office

18 November 1976

TOP SECRET

Copy No. 35

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 32nd Conclusions, Minute 3

Thursday 18 November 1976 at 10.30 am

IMF NEGOTIATIONS

THE PRIME MINISTER said that it was essential to maintain complete secrecy about the discussion of this matter. The negotiations with the International Monetary Fund (IMF) had so far been mainly exploratory. He had himself seen the head of the IMF team to ensure that the negotiation was conducted with a full sense of the political dimension involved. He had also spoken to the Chancellor of West Germany and to the Presidents of France and the United States. The Chancellor of the Duchy of Lancaster had only just returned from Washington where he had been explaining the British position to leaders of the United States Administration, with some success. There was much goodwill for the United Kingdom in its present position, but a general view that the public sector borrowing requirement (PSBR) was too high and should be reduced. The Ministerial Committee on Economic Strategy (EY) had met the previous evening and had given the Chancellor of the Exchequer a very tight negotiating mandate, making it clear that he must report back to the Committee before entering into commitments of any kind with the IMF. The size of the PSBR was a central factor and this would have to be considered by Cabinet. At the same time work was in hand at both the technical and political levels to remove the vulnerability of the sterling exchange rate to the risk of withdrawal of the sterling balances, and it was hoped that some statement on this, if only in general terms, would be possible at the time the IMF loan itself was announced. That, together with the possibility of import deposits or something similar would come before Cabinet in due course to give Ministers the opportunity to construct a two or three part package which would enable the Government to stand firm for a further 18 months, until the situation improved in 1978.

THE CHANCELLOR OF THE EXCHEQUER said that so far the Government had taken a tough, non-committal line with the IMF. In accordance with the instructions he had had from EY, there had been no discussion with the IMF of possible action. The IMF disliked putting their own proposals forward, but they had now produced a broad judgment on the prospects as they saw them. In their view, if the PSBR were not cut, then even with high interest rates it would be impossible to finance the PSBR without an inflationary increase in the money supply which would react on the

TOP SECRET

exchange rate and lead to lower investment and higher unemployment - a recipe for catastrophe. If, however, the PSBR were reduced, they thought that it should be possible to resume steady progress by the end of 1977 because they took the view that the Government's basic strategy was correct. The problem for the Government, therefore, was to decide what was the highest level of PSBR which could be financed without adverse effects, and which they could persuade the IMF and the other countries concerned to accept. EY had agreed that he could discuss with the IMF the policy options on various bases, down to but in no circumstances below a PSBR of £9 billion in 1977-78. He would report back the following week, and it would then be time to discuss how a reduction might be achieved. Once the loan had been agreed, it should be possible to move towards some arrangement on the sterling balances, which, together with other possibilities, would make the package rather more acceptable. On timing, it was essential to announce some agreement with the IMF by mid-December if confidence were not to be impaired. As he saw it, agreement would be needed by 7 December on the IMF loan if there was to be time before mid-December to make progress on an arrangement for the sterling balances. A decision on the size of the PSBR would therefore be essential early in the following week, and thereafter Cabinet would be able to discuss the options - tax increases or public expenditure reductions - for achieving this.

In discussion it was argued that, when the time came to make an announcement about the IMF loan, the package would need to be presented as part of a new strategy. It would not be enough to offer more of the old medicine in stronger doses; the package must be seen as part of a wider economic plan. Import controls, whether they were to be recommended or not, should form one of the options put before Cabinet. There was, however, a considerable difficulty over timing. It was not easy to see at what point Cabinet could find the opportunity for a broad discussion of the kind this would entail given that the highly sensitive nature of some of the issues meant that the period between decision and implementation would need to be kept to the absolute minimum. To some extent it was inevitable that EY, which itself covered a broad range of opinion within the Cabinet, should be trusted to carry the discussion forward; and there was support for the view that anything which looked like special Cabinet meetings - eg at Chequers at the weekend - could only create an undesirable crisis atmosphere. Not all Cabinet members could take part in the development of the proposals which they would in any case eventually have a chance to pronounce upon; and it was necessary to leave matters for the moment in the hands of the Prime Minister and the Chancellor of the Exchequer and to trust them, supported as necessary by EY. It was vital that there should be no outside speculation on sensitive issues, and although the Government would argue hard with the IMF, it would be important for confidence reasons to maintain a calm public image. It would however be desirable for Ministers to consider, if it were possible, the political

dimension involved - the problem of presenting, to the Party, to the trade unions, and to the country the revised strategy of which the IMF agreement would only be part. It was further argued that it was not merely a question of presentation but one of substance, since it could be held that the Labour movement would be unwilling to accept any appreciable measure of further deflation, and that a move in this direction would erode the confidence not only of the Labour movement but of the British people in the Government. From this point of view the quantum of the PSBR rather than its distribution was the crucial factor. These matters needed discussion at an early date.

THE PRIME MINISTER, summing up the discussion, said that he had much sympathy with the feeling which had been expressed that an opportunity for more discussion should be found; but there were certain facts which had to be recognised. The IMF team had come to the United Kingdom to negotiate a loan, which the United Kingdom needed. They had already been here a fortnight, and it was essential to reach at least preliminary conclusions with them early in the following week. To send the IMF team back to Washington on the ground that the Government needed to discuss the situation at length was unthinkable. On present evidence of the IMF's views, it seemed likely that some reduction in the public sector borrowing requirement would be needed, whether through taxation increases or expenditure cuts. However, simply to announce more deflation and no growth was politically unacceptable, and for this reason he was anxious if possible to introduce into the situation the new factors which had already been mentioned on the sterling balances and imports, which would give the Government the possibility of standing firm for a further 18 months until things improved. The best way to cope with the worries which had been expressed would be for Cabinet to meet on Tuesday of the following week to settle the quantum of the PSBR, without any prior discussion in EY. It would then be possible later in the week for Cabinet to discuss strategy if that was still felt to be necessary; but he suggested that that point might be reconsidered after Tuesday's Cabinet meeting. He assured his colleagues that there was no question of cutting expenditure programmes behind the backs of the spending Ministers - any decision on the composition of the steps needed to get to a lower PSBR would be a matter for Cabinet.

The Cabinet -

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

Cabinet Office

19 November 1976

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CM(76) 33rd Conclusions

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CABINET

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

TUESDAY 23 NOVEMBER 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 Merlyn Rees MP Secretary of State for the Home Department	The Rt Hon Shirley Williams MP Secretary of State for Education and Science 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 Northern Ireland
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 Mulley MP Secretary of State for Defence	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 Edmund Dell MP Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr D le B Jones (Item 2)
Sir Clive Rose (Item 1)
Mr J A Marshall (Item 2)
Mr C Wilson (Item 1)

CONTENTS

RHODESIA

Previous Reference: CM(76) 32nd Conclusions Minute 2

1. The Cabinet had before them a memorandum by the Foreign and Commonwealth Secretary (CP(76) 110) on the British role in Rhodesia during the interim period.

THE PRIME MINISTER said that there had been a preliminary discussion of the subject in the Ministerial Group on Southern Africa. Opinion had been fairly evenly divided on the Foreign and Commonwealth Secretary's proposals. Some Ministers had argued that the risks and consequences of a breakdown for which we would be blamed were such as to justify a limited move on the lines proposed. As against this, there was a substantial view that once we had made a move it would be difficult to avoid further involvement and that we should therefore refuse to do so, even if this resulted in our being blamed for a breakdown. All those present had agreed that, if we were to play a role in Rhodesia during the interim period, it should go no further than proposed in paragraphs 9 and 11 of the Foreign and Commonwealth Secretary's memorandum.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the position in Geneva was that either there would be agreement on the independence date in the next few days or, if there was not, the Chairman would, on his instructions, adjourn the talks for a week or ten days. In either case, a decision had to be made on the British role during the interim period. He was convinced that there would have to be a British presence of some kind. We had a continuing responsibility under the 1961 Constitution, which had been recognised by successive British Governments. Public opinion would not expect or want us to wash our hands of this. African Governments, the Commonwealth Secretary General and others, all considered that a solution of this issue would determine whether the conference broke down or not. This was because of the fundamental distrust by the Black Nationalists of Mr Smith and the African view that, without a British presence, Mr Smith might try to back out of any agreement reached at Geneva. If the conference were to break down in circumstances in which we were blamed, we should lose our influence and goodwill in Black Africa; relations with our European partners would be soured; the effect on our relations with the United States would be disastrous; and there would be an escalation of the guerilla war, with the South Africans coming in on one side and the Cubans on the other, which would make a shambles of Rhodesia. We should thus be faced with everything which, when embarking on the present initiative, we had hoped to avoid. He ruled out any possibility of sending British forces or officials to Rhodesia, or of assuming direct or sole responsibility for maintaining law and order. Moreover, if we were to agree to a British presence, it would have to be made absolutely clear that it would be withdrawn if the interim government

should break down. Subject to these points, he proposed that the offer of a British presence should be made on the conditions that guerilla activity should cease as soon as the interim government had been established; sanctions should be lifted when the interim government was legalised; and the cost of the British presence should be borne by the interim government. On these conditions he proposed that we should offer to provide a British representative who would play an active part in negotiating the independence constitution and act as the chairman of the constitutional conference. The British representative would have responsibility for external affairs under the 1961 Constitution and would have ultimate responsibility for defence and internal security which would extend to exercising a veto over certain appointments and dismissals in the armed forces and having power to convene a meeting of Ministers in the event of a major threat to law and order, at which he might have a casting vote. It would only be acceptable for the British representative to exercise this ultimate responsibility provided that either a Council of State was established with executive responsibility in the fields of defence and law and order or agreement was reached in Geneva on the identity of the Ministers who would exercise day to day responsibility in these two fields. The Commonwealth Secretary General had suggested that there should be some symbolic Commonwealth presence in support of the British representative and that this might take the form of military advisers from, say, Canada, India and Nigeria. This was a helpful suggestion. There was no certainty that a package on the lines he had proposed would secure agreement. What was certain, however, was that if we were not prepared to offer something on these lines, the conference would break down. There were serious risks and he understood the argument that if we were to go this far we would be pressed to go further. The risks could be minimised if we declared in advance the limits of what we were prepared to offer. We would then be in a position to claim that our offer was a reasonable one and, if we could do this, the pressures on us would be much reduced.

In discussion it was argued that while we should be very cautious about extending our involvement, it was crucially important that the Geneva conference should be given every chance of success. We had continuing responsibility for Rhodesia; and it would be quite wrong for us not to take such steps as lay within our power to achieve a peaceful settlement. Furthermore this issue was not irrelevant to the discussion which the Cabinet would shortly be having about the loan from the International Monetary Fund: if other countries were prepared to help us in our economic difficulties this was at least partly because we stood for something in the world and fulfilled our responsibilities. The African Presidents were aware of the limitations of British power. They knew we could not

send troops and did not want us to do so. But they looked to us to take the lead and provide the focal point on which success or failure might turn. Furthermore the consequences of failure justified our taking some risks: indeed if we did not accept a British role we would still face serious risks but without any of the opportunities. There would however be advantage in some form of a Commonwealth presence alongside our own if this could be achieved. Although we could not guarantee success and might in the end be forced to pull out and admit failure, it would be shameful to do so at this stage.

It was however pointed out that we should have considerable difficulty in securing fulfilment of the condition that guerilla activity must cease. Indeed the people with whom we would be negotiating a British presence might not themselves have the power to call off this activity completely. We should certainly ensure that our requirement was understood and accepted by the Nationalist participants in the interim government as well as by the African Presidents. We should insist on a public statement from Presidents Nyerere, Kaunda and Seretse Khama, though probably not from President Machel, as well as from the Nationalist leaders in Geneva, that they would take active steps to discourage the continuation of guerilla activity. But even with such a statement the condition could not be an absolute one. Whether any continuation of guerilla activity would make it necessary to withdraw the British presence would depend on the scale. Given the circumstances we would not be able to prevent a continuation of minor activity on a sporadic basis.

Against a British presence it was argued that its objectives could only be achieved by a major exercise of power which we could not and should not exercise. It was no good saying that we should put a British representative in Rhodesia in charge of defence and then, when Rhodesian troops were fired on, pulling him out. Inevitably, a British presence would result in Rhodesian politics becoming British politics and we should be increasingly involved, with probable detriment to our relations with Black Africa. There could even be a risk that a British Commander in Chief would find himself in command of White Rhodesian forces against Black Africans which would be both politically and militarily unacceptable. We were already on a slippery slope in that the Cabinet was prepared to admit that we could not make the cessation of guerilla activity an absolute condition of a British presence.

THE PRIME MINISTER, summing up the discussion, said many of the Cabinet had earlier been opposed to the idea of a British presence in the interim government. There was however now a large majority in the Cabinet that felt that, provided we could secure the right

conditions, the risks could be minimised and should be run in the hope of achieving a lasting settlement. The Cabinet were accordingly prepared to endorse the Foreign and Commonwealth Secretary's proposals on the lines of paragraphs 9 and 11 of his memorandum, on the clear understanding that what was involved was the presence of an individual British representative and not a military force. But, before we finally committed ourselves to this, there must be agreement on the structure of the interim government and the conditions laid down in paragraph 7 of the memorandum must be fulfilled. In particular we should make it clear both in Geneva and to the African Presidents that if the interim administration broke down the British representative would be withdrawn and that the sole purpose of the British presence was to assist in the movement towards independence by March 1978. We should state publicly that this was why we were prepared to accept a role in Rhodesia during the interim period. The Foreign and Commonwealth Secretary should consider the best tactical method of presenting our offer and securing acceptance of the conditions under which it was made.

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 proceed accordingly.

IMF NEGOTIATIONS

Previous Reference: CM(76) 32nd Conclusions Minute 3

2. The Cabinet discussed the negotiations with the International Monetary Fund. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

23 November 1976

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CABINET

LIMITED CIRCULATION ANNEX

CM(76) 33rd Conclusions, Minute 2

Tuesday 23 November 1976 at 10.00 am

IMF NEGOTIATIONS

Previous Reference: CM(76) 32nd Conclusions, Minute 3

The Cabinet had before them a memorandum by the Chancellor of the Exchequer (CP(76) 111) about the negotiations with the International Monetary Fund (IMF) over a possible drawing on the Fund by the United Kingdom.

THE PRIME MINISTER said that he must emphasise to his colleagues the need for absolute secrecy of the discussions they were about to have: any leaks of views expressed in Cabinet could only be harmful to the country and to the Government. The Cabinet faced a very serious question: did they think that they could and should afford to pay the price the IMF were asking for a loan; and if not, what were the consequences? If they failed to reach agreement with the IMF, the Government faced the risk of the exchange rate falling out of control, with reserves totally inadequate for the purposes of intervention, with implications for prices and unemployment which could break the partnership between the Government and the unions. On the other hand, if an agreement were reached on the lines at present envisaged by the IMF, this too could strain the Government's relationship with the trade union movement beyond breaking point and put the Social Contract at risk. The situation was not made easier by the need to take very early decisions. He enjoined upon his colleagues that if they rejected one course they must be ready to consider what the alternative might be.

THE CHANCELLOR OF THE EXCHEQUER said that the situation was very difficult, but it would be worse if the negotiations broke down. The IMF supported the Government's broad economic strategy; but the difficulty was that the Government would be unable to finance either the internal or external deficit over the next year without the loan. The present position with the Fund was as follows. In the view of the Fund staff, the objective should be to get the public sector borrowing requirement (PSBR) down to £6½ billion in 1978-79, which would mean a cut of £3 billion on the present forecast. For 1977-78 the present forecast was £10½ billion and the IMF would like to see

TOP SECRET

this reduced to something lower than £9 billion, although he believed that it would probably be possible through negotiation to get them to accept £9 billion. That meant a total reduction of £$1\frac{1}{2}$ billion; and if £$\frac{1}{2}$ billion could be obtained by the sale of some British Petroleum shares, this would leave a further £1 billion to find. He thought that the IMF would want this to be obtained almost wholly by public expenditure reductions. The further reduction in 1978-79 would be assisted by the fact that the reduction in 1977-78 would lead to reduced debt interest payments the following year to the extent of some £$\frac{1}{2}$ billion. A further £$\frac{1}{4}$ billion could be secured by adoption of his proposals for changes in the present export credit arrangements (but this would reduce the PSBR in 1977-78 only by £100 million). He shared the Fund's view that the more which could be done in 1977-78, so the better the effect on confidence would be, the easier the position in 1978-79 would become, and the less would be the risk of having to take a further bite at public expenditure. The proposals would mean that the gross domestic product (GDP) would grow at some 1-$1\frac{1}{2}$ per cent in 1977-78, and $3\frac{1}{2}$-4 per cent in 1978-79. The lower PSBR would lead to a fall in interest rates, which would help investment. It would mean the addition of about 70,000 to unemployment at the end of 1977-78, over and above the $1\frac{3}{4}$ million already forecast. The balance of payments would be in surplus on current account by the second half of 1977, instead of in 1978 as forecast on present policies. He pointed out that if events proved that the Treasury forecast was too pessimistic, it would be possible to feed demand into the economy by tax cuts in the 1977 Budget. In his view the desirable deadline for an announcement about the IMF loan would be 7 December (before the present standby had to be repaid on 9 December), or at worst on 15 December, so that the Parliamentary Debate could take place before Christmas. It was therefore a matter of some urgency to reach agreement with the IMF on the target size for the PSBR, and very broadly on the extent to which it would be achieved through taxation or through expenditure adjustments. He reminded his colleagues that, if negotiations with the IMF failed, there was no hope of obtaining bilateral aid from other countries; whereas if agreement were reached there was a real possibility of getting an agreement on the sterling balances which could be announced simultaneously. The adjustment he was proposing would be painful but it would be made with the full endorsement of the IMF and our major allies. It could transform our international position and have a very important effect on domestic confidence.

THE FOREIGN AND COMMONWEALTH SECRETARY said that the proposed reduction in the PSBR in 1977-78 could not be defended on any reasonable grounds. In terms of resource allocation there was clearly no need to release further resources for exports while unemployment was so high. In terms of the financial argument - that the Government would be unable to finance the prospective PSBR - no outside forecast of the 1977-78 PSBR was as high as that of the Treasury, and the National Institute for Economic and Social Research had recently reduced their estimate to £8.3 billion. This estimate would be published at about the same time as the announcement of the proposed measures. In terms of achieving a surplus on the balance of payments, it was clear that present policies would achieve that surplus in 1978, and the only effect of the IMF proposals would be to bring that improvement forward into the latter part of 1977. In terms of the industrial strategy, the effect of the lower interest rates which would flow from the IMF proposals if implemented would be as nothing compared with the effect upon productive industry of the increase in unemployment and the reduction of the growth rate to something not much above zero. In terms of the Social Contract, there was absolutely nothing to be said for the proposal. The case for a reduction in public expenditure had not been made out; and there was an impressive body of opinion among economists of all political shades against such a move. Further public expenditure cuts would have a disastrous effect upon the public service unions, and the Social Contract would certainly break down as far as the public sector was concerned. In the Parliamentary Labour Party opposition would come not only from the left wing but also from the Manifesto Group. On the other hand he accepted that the Government faced the question of maintaining market confidence, and for that reason alone, even though they might think further deflationary steps otherwise wrong, it might be necessary to take some action. He therefore suggested, as an alternative to the Chancellor of the Exchequer's proposal, that the Government should tell the IMF that they would be prepared to reduce the prospective PSBR in 1977-78 to £9½ billion, ie a cut of £1 billion which would be made up as follows: £½ billion from the sale of British Petroleum shares; £¼ billion from cuts of a kind which had no effect on demand or employment; and £¼ billion from real cuts in public expenditure. The IMF should be left in no doubt that the consequences of pressing for more could only be to drive the Government into a protectionist attitude with serious implications for the future of the EEC and for world trade. The United Kingdom's weakness was in fact its strength, as long as the Government kept their nerve, since the IMF could not afford not to make the loan available.

In discussion there was considerable support for the point of view put forward by the Foreign and Commonwealth Secretary. It was argued that the Government simply could not face publishing a forecast figure of 1¾ million for unemployment at the same time as they were announcing measures which would add to, not reduce, that figure. There would be no hope of trade union co-operation in such

a situation. Nor was there any prospect that the Government could obtain the approval of the House of Commons for the Chancellor of the Exchequer's proposals. In particular, the suggestion that the next uprating of social security benefits should be reduced or eliminated - a proposal which would require legislation - would be quite impossible to carry in the House, save perhaps as part of some totally new policy such as a 12 months freeze on wages and prices. There was no economic ground on which such a deflationary change of policy could be justified and it would split the Labour Party and destroy the Government's relationship with the trade unions. The Government needed more time in order to consult the Trades Union Congress (TUC), the National Executive Committee of the Labour Party and the Parliamentary Labour Party. To agree to what the IMF had proposed, if Cabinet did not believe that prescription to be right, would be a betrayal of the national interest and would damage national confidence. If the Government believed their present policies were right, they should say so and make it clear that, if other countries were not prepared to help, then the United Kingdom would be ready to defend herself, if need be by adopting an alternative strategy involving import controls. Nevertheless, there was a broad measure of agreement that it was necessary for the United Kingdom to get the loan and for this reason it was essential that the Government should go back to the IMF to seek to negotiate more acceptable terms. At the same time the Prime Minister should perhaps take the matter up with the Heads of friendly governments, to impress upon them the seriousness with which the Cabinet viewed the IMF position, and to solicit any help they could offer.

Against this it was questioned whether there was any viable alternative to the Chancellor's proposals. Furthermore it was argued that, quite apart from the IMF terms, some reduction in the PSBR was essential and that it would be better to go for a figure of £8½ billion in order to obtain the maximum advantage from it. It had to be remembered that it was not only the IMF which had to be persuaded to accept some less drastic figure: there was also the question of market opinion. Unless the agreement reached was one which carried conviction with the markets, it would be of no use. Economic policy had for years been mistaken because it had placed too great an emphasis on arguments about resources. The truth was that the Government was facing the question of its own survival. If a PSBR of £8½ billion in 1977-78 was right, then the Government should set out to get the support for it of the Parliamentary Labour Party; failing that it should get the proposals through with the support of other parties; or it should make way for another Government.

THE PRIME MINISTER, summing up the discussion, said that the Government had always to keep in mind both domestic opinion - without the support of which the Government could not carry its policies through - and overseas opinion, since the confidence of the markets was also of cardinal importance. The degree of inter-dependence in the developed world was now such that it was essential to have at least the acquiescence of the United Kingdom's partners in any action which she might take. Defiance would not do. It was a matter of judgment, not of knowledge, how far the possibilities which they had been discussing would in fact satisfy either overseas governments or market opinion: and if the IMF were persuaded to modify their terms too far as a result of political pressure the outcome would not necessarily satisfy the markets. Reference had been made to the possibility of an alternative strategy of import controls; but it had to be remembered that such a strategy would also be difficult to carry politically and would in any case take twelve months to work during which time we would have to continue to finance the deficit. He did not think the Cabinet could reach any final conclusion that day. There was widespread agreement that the Government must have the loan from the IMF, and he had received indications from President Ford and others that, if agreement were reached with the IMF, some arrangement over the sterling balances could be agreed quickly in order to be announced simultaneously. This was an important advantage. The Chancellor deserved credit for the progress already made in negotiations with the IMF. Nevertheless many of the Cabinet at present felt that the scale of the public expenditure cuts at present proposed was too great to accept. Both he and the Chancellor of the Exchequer would therefore talk further to the leader of the IMF mission with a view to getting agreement on a PSBR in 1977-78 of £9½ billion, and at the same time he would seek to reinforce the United Kingdom's position by sending messages direct to President Ford and Chancellor Schmidt asking them to bring pressure to bear on the IMF. The Cabinet could then consider the matter further at their meeting on Thursday when he and the Chancellor of the Exchequer would hope to make a joint recommendation to them. It woud however then be essential to reach a conclusion on the broad shape of an agreement with the IMF, including the question whether that agreement would carry conviction in the markets and be capable of gaining the support of the Party. He was seeing Mr Len Murray of the TUC that afternoon, and would mention the situation to him in a suitably discreet manner. All that should be said to the Press was that progress was being made.

The Cabinet -

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

Cabinet Office

24 November 1976

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CM(76) 34th Conclusions

COPY NO 77

CABINET

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

THURSDAY 25 NOVEMBER 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 Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection,

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury
(Items 1 and 3)

SECRETARIAT

Sir John Hunt
Mr G R Denman (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)
Mr A K H Atkinson (Item 2)

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 the business on Wednesday 1 December would be the Second Reading of the Aircraft and Shipbuilding Industries Bill, and a related procedural Motion the precise form of which was still under consideration. This Motion would need to cover both the truncation of the Committee and Report Stages, as had been done in the previous Session with the Trade Union and Labour Relations (Amendment) Bill, and the question of hybridity. Unless the Government indicated their intention of putting down a Motion to the effect that the Bill should proceed as a public Bill, then the Bill would - under the normal procedure of the House - be referred to the Examiners for them to consider whether it was hybrid, a process which would take two weeks or more. Meanwhile it would not be possible to proceed with Second Reading so that, even assuming the Bill was found not to be hybrid, Second Reading would be delayed until after the Christmas Recess. The provisions now alleged to be hybrid were those relating to ship-repairing, not those on which the Speaker had given his ruling of prima facie hybridity last May. If the Examiners found that the Bill was hybrid, it would then be referred to a Select Committee, which would hear any petitions against provisions of the Bill and which might make amendments. Parliamentary proceedings on the Bill would then drag on for many months. He hoped that the procedural Motion could be taken after Second Reading on 1 December, but this might not be possible if the question of hybridity were to be raised in the House before then. The Motion might provoke a considerable row with the Opposition but this could not be helped.

In discussion it was pointed out that the debates on the Aircraft and Shipbuilding Industries Bill on 1 December, and on the Second Reading of the Social Security (Miscellaneous Provisions) Bill on 2 December, would mean taking two difficult and contentious pieces of business immediately after the Debate on the Address, which would sour the atmosphere at the start of the new Session. It was, however, important to make early progress on both Bills, and there might be difficulty in obtaining Second Reading for the Social Security (Miscellaneous Provisions) Bill: the Government's majority was likely to be reduced from Monday 6 December. The procedural Motion on the Aircraft and Shipbuilding Industries Bill could be justified on the basis that hybridity should not be used as a device to frustrate the operation of the Parliament Act; and a row with the Conservatives on this Bill on 1 December might help with the morale of backbenchers, and reduce the risk of defections in the vote the following day on the Second Reading of the Social Security (Miscellaneous Provisions) Bill. While those backbenchers who had previously voted against the Government on the earnings rule for retirement pensioners were now

believed to recognise that the alternative to the Government's proposal to restrain a further rise in the earnings rule would be even worse, there was considerable opposition to the proposal to restrict payment of unemployment benefit to occupational pensioners. There could be no question of forgoing this saving of unemployment benefit, though it might be possible to offer the prospect of some give in Committee. While further time for consultation with the Parliamentary Labour Party might help to reduce the risk of failing to carry the Second Reading of the Social Security (Miscellaneous Provisions) Bill, there was no other suitable business to bring forward to 2 December; and it would have to be emphasised to the Party that the alternative to the Government's policies was a Conservative Government.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet accepted the need to take the Second Reading of the Aircraft and Shipbuilding Industries Bill and the related procedural Motion, and the Second Reading of the Social Security (Miscellaneous Provisions) Bill, in the following week. It was important to do everything possible to ensure that the latter Bill would receive a majority on Second Reading.

The Cabinet -

Took note.

CAP STRATEGY

Previous Reference: CM(76) 9th Conclusions, Minute 2

2. The Cabinet had before them a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 112) covering a report by the Ministerial Committee on European Questions on a strategy for the Common Agricultural Policy (CAP).

THE FOREIGN AND COMMONWEALTH SECRETARY recalled that the Cabinet at their meeting on 11 June had expressed the wish to consider before the end of the year our strategy towards the CAP. The Ministerial Committee on European Questions had in the first instance remitted the question to a small Sub-Committee of the Ministers mainly concerned, chaired by the Minister of Agriculture, Fisheries and Food. After considering the Sub-Committee's report the Ministerial Committee were agreed in recommending that our long-term aim should be to eliminate structural surpluses by reducing Community support prices, but that in the medium and short term we should give priority to retaining for as long as possible the very substantial advantages we derived from the Green Pound and should give up no more of those advantages than was necessary to secure an acceptable price settlement.

In discussion there was general agreement with the recommendations of the Ministerial Committee. In the short term we were in a stronger position to retain the benefits of the Green Pound than to resist Community price increases. It could be argued that we could not expect to retain those benefits much longer and should make a virtue of necessity by sacrificing them in favour of insistence on a price freeze for surplus commodities. But this was to underrate our ability to hold the Green Pound against pressure both from the Community and from our own agricultural industry, and it was necessary to recognise that an outright confrontation with our partners over prices would be unprofitable. It was however important to be sure of avoiding more than a minimal change in the Green Pound during our Presidency. In the longer term particularly as and when currencies became more stable there would be great pressure from the Community to abolish green currency differentials and we should not lose sight of the bargaining counter this would give us in holding down prices for surplus commodities. Even at the next price fixing we should pursue this aim by all means short of outright confrontation. But it was not clear how far in practice concessions on the Green Pound could be used to secure restraint on prices and we should make no such concessions that were not fully justified by the need for an acceptable price settlement. There were good reasons for believing that the Commission's proposals for automatic adjustment of green currencies could be successfully resisted.

In further discussion attention was drawn to the damaging consequences of the Green Pound for Northern Ireland where agricultural employment was much more important than in Great Britain and where there was serious unemployment in rural areas. The green currency differential in favour of the Republic resulted in widespread smuggling of livestock to the South and it had been necessary to subsidise supplies to Northern Ireland meat plants at a cost of £1 million per month. This was a burden which should be shared by the United Kingdom.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet noted the special problems of Northern Ireland, but accepted the recommendations of the Ministerial Committee on European Questions set out in the report attached to CP(76) 112, subject in particular to our taking as tough a line in next year's fixing of Community prices as was compatible with the avoidance of confrontation and to our only making concessions on the Green Pound which were fully justified by an acceptable price settlement.

The Cabinet -

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

IMF NEGOTIATIONS

Previous Reference: CM(76) 33rd Conclusions, Minute 2

3. The Cabinet resumed their discussion of the negotiations with the International Monetary Fund. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

25 November 1976

Copy No. 38

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 34th Conclusions, Minute 3

Thursday 25 November 1976 at 10.30 am

IMF NEGOTIATIONS

Previous Reference: CM(76) 33rd Conclusions, Minute 2

THE PRIME MINISTER said that the action agreed upon at the previous Cabinet discussion had been taken. He had sent messages to President Ford of the United States and to Chancellor Schmidt of West Germany; and both he and the Chancellor of the Exchequer had seen the leader of the International Monetary Fund (IMF) team. The IMF now fully understood that the Cabinet were not convinced of the need for deflationary measures; and they understood the nature of the dilemma facing the Government in which if the action taken were unduly severe the Government would lose the present co-operation of the trade unions, whereas if it were too mild it would fail to carry conviction in the markets. Contrary to their previous view, neither Germany nor America were now pressing for an immediate agreement with the IMF, and it was therefore not necessary to push matters to a conclusion in the present week. He himself would be attending the European Council on Monday and Tuesday of the following week, so that Cabinet would resume their discussion of this subject on Wednesday 1 December. In the meantime, officials of the Treasury and the IMF were examining the implications of three possible scenarios, involving differing levels of the Public Sector Borrowing Requirement (PSBR) at £8½ billion, £9 billion and £9½ billion in 1977-78. He had spoken, on Privy Counsellor terms, to Mr Len Murray of the Trades Union Congress (TUC) to indicate the broad nature of the problem to him, and Mr Murray would be giving the matter further thought.

In discussion it was argued that it would be important, when the Cabinet returned to this subject the following week, to have proposals circulated on paper in advance of the meeting so that Ministers would have an opportunity to reflect upon them before the discussion. Indeed, it would be wrong if the sole proposals before Cabinet were those which the Prime Minister and the Chancellor of the Exchequer had at the last meeting said they would hope to put forward jointly. It would not be enough for Cabinet to be asked to approve or reject one

set of proposals. There should be an opportunity to discuss alternative courses, including the more radical alternative strategy which had already had some discussion in the Ministerial Committee on Economic Strategy. The Cabinet ought also to discuss the likely content of the Letter of Intent which the IMF would need; and it was pointed out that the 1975 letter gave an assurance that the Government would not adopt the kind of import restrictions which were at the heart of the alternative strategy. One possible course of action would be to impose a wage and price freeze for a period - although it was pointed out that, while it might be possible to freeze incomes, most prices were determined by forces which were beyond the Government's control. The Cabinet had, at their last meeting, broadly agreed that there were no economic grounds justifying large deflationary moves; but there had been some support for the view that some reduction in the PSBR would be necessary to reach an agreement with the IMF and thus obtain the loan which was needed to get through the next 12 months. The Government were subject to two constraints: on the one hand it was necessary to satisfy the IMF, and perhaps more important to satisfy the markets, since unless this were done even an agreement with the IMF would be of little value: on the other hand, there was the need to arrive at a package for which the Government could command support in their own Party and in the House of Commons. On the former count, it was argued that the alternative strategy was quite impracticable, and that it was essential to avoid negotiating the IMF into agreeing a package which the markets would reject as inadequate. On the latter count it was argued that any package which involved cuts in public expenditure and a continuation of the rising trend in unemployment would not work, and would destroy the social contract.

In further discussion the following points were made -

a. Market confidence depended not on securing the short-term approval of the Press and others but on having sound policies and economic structures with a good political backing. The establishment of a safety net under the sterling balances would be a major boost for confidence.

b. The announcement of an agreement with the IMF would now be not very widely separated in time from the publication of the economic forecast. There was therefore a strong case for announcing, along with the loan agreement, measures to reduce unemployment in 1977, particularly the extension of the Temporary Employment Subsidy, which placed a lower burden upon the Exchequer than the cost of redundancies. Unless action was taken on unemployment, the social contract would collapse.

c. Time would be needed, after the Cabinet had considered the Chancellor of the Exchequer's proposals the following week, so that once the magnitude of the total public expenditure cut envisaged was settled, there could be a round of discussion with the TUC about its allocation.

d. The IMF had now abandoned the concept of a target for the PSBR in 1978-79, having been persuaded that the uncertainties in such a calculation were too great; and they were moving towards the concept of a target figure for the adjustment, which would be varied in relation to growth. It was suggested that if the target in 1977-78 were £8½ billion, the carry-through of the expenditure cuts that would involve, including the consequential reduction in debt interest, combined with acceptance of the Chancellor of the Exchequer's proposals on export credit, would mean that relatively little further expenditure savings would be needed.

e. It should not however be assumed that, for 1978-79, part of the solution could be found in a hardening of the terms of our export credits. The proposals which had been put forward, but not yet discussed, could mean putting the interests of manufacturing industry second to other considerations. This would finally and totally undermine the Government's industrial strategy.

f. It would be important not to underrate the political realities of the situation. The Cabinet's decision over safety representatives had, as predicted, upset the TUC. The miners, contrary to expectations, were displaying militancy over the early retirement issue - and might, indeed, be trying to move towards free collective bargaining. The Parliamentary Labour Party was likely to prove difficult over the proposal to restrict the right of occupational pensioners to draw unemployment benefit. It was not impossible that the insistence of the IMF on hard terms could lead to the Government losing office.

g. While it would be difficult to carry the Labour Party in a tough package, it might well prove even more difficult to carry them in a repeated series of smaller doses made necessary because the market was unconvinced by the adequacy of the original prescription. It was essential to ensure that any course which was chosen would in fact work in practice.

h. The position was that the country had been spending, and continued to spend, more than it earned. This was true both of the nation and of the Government. In recent years, the

real value of the spending of those on social security benefits had been protected by law, while the real incomes of those in work had been cut. A continuation of this could destroy the Labour Party. The seminal issue was that in an economy which was both mixed and open, dependent upon the level of world trade, to spend more than was earned meant that the country became dependent upon foreign borrowing, and thus dependent upon the judgment of those who financed the purchase of British goods and would finance the loan now being sought. It would be essential to convince the Government's supporters that these were facts of life which had to be faced.

THE PRIME MINISTER, summing up the discussion, said that none of the courses facing the Cabinet was attractive or certain in its effect. In the following week they would need to decide which course was least unpalatable and least risky, and then seek the maximum support for it. He understood the desire expressed by some members of the Cabinet for a discussion of an alternative strategy of protection, although it had to be borne in mind that if no agreement were reached on the IMF loan the prospect of an arrangement to deal with the sterling balances, which now seemed very good, would also disappear. The alternative strategy had however hitherto only been discussed in the Ministerial Committee on Economic Strategy and it would be right for the Cabinet to discuss this, in addition to resuming their discussion of the IMF negotiations, in the following week. He would arrange for the circulation of the necessary papers, having regard to the sensitive nature of some of the possibilities envisaged.

The Cabinet -

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

Cabinet Office

25 November 1976

(7)

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

CM(76) 35th Conclusions

COPY NO 77

CABINET

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

WEDNESDAY 1 DECEMBER 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 Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon David Ennals MP
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The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

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

SUBJECT

IMF NEGOTIATIONS

IMF NEGOTIATIONS

Previous Reference: CM(76) 34th Conclusions, Minute 3

The Cabinet discussed the negotiations with the International Monetary Fund. Their discussion is recorded separately.

Cabinet Office

1 December 1976

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TOP SECRET

Copy No. 37

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 35th Conclusions

Wednesday 1 December 1976 at 10.30 am

IMF NEGOTIATIONS

Previous Reference: CM(76) 34th Conclusions, Minute 3

The Cabinet had before them four papers on the alternative courses which were open to the Government - a memorandum by the Chancellor of the Exchequer (CP(76) 123), a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 118), a memorandum by the Secretary of State for Energy (CP(76) 117) and a memorandum by the Secretary of State for the Environment (CP(76) 124); together with three memoranda by the Chancellor of the Exchequer (CP(76) 111, 122 and 125) and a note by the Central Policy Review Staff (CP(76) 116) which were also relevant.

THE PRIME MINISTER said that the formal position of the United States and West German Governments was that the negotiations over the loan were for the International Monetary Fund (IMF) to handle; and although no doubt they both had their contacts with the IMF, it seemed that they were not prepared to bring pressure to bear on the Fund on the United Kingdom's account. The West German Chancellor was, however, impressed with the gravity of the situation, and fearful of the possibility that the world might start moving down the trade restriction route. He reminded the Cabinet that the loan negotiations were only one element in the situation, and there were good grounds for believing that others might be negotiable, eg an international arrangement to cover the sterling balances. Without an agreement with the IMF over the loan, there was however no question of covering those balances, and no question of any other bilateral borrowing. He had talked privately and separately to Mr Len Murray and to Mr Jack Jones but there were difficulties in any wider consultation with the Trades Union Congress (TUC) in view of the need for complete secrecy. He suggested that at that day's meeting they should concentrate on the broad strategic options open to the Government, leaving more detailed consideration till their meeting the following day.

THE SECRETARY OF STATE FOR ENERGY said that the Cabinet had to reach a political judgment on the situation. The West German Chancellor had shown himself unsympathetic; the present United States administration was a lame duck; and President-elect Carter was an unknown quantity. All of this pointed to the need for self-reliance. The country was in the depths of a slump which would deepen. With $1\frac{1}{4}$ million unemployed the Government must go for reflation in order to move towards their target of getting unemployment down to 700,000 by 1979. They must expand the manufacturing base; and they must safeguard social security benefits. The Cabinet had to choose between two alternative strategies; that which he proposed, and that which was put forward by the Chancellor of the Exchequer which, with its deflationary impact, was a departure from, not a continuation of, the existing strategy. In his view deflation was unacceptable. The expansion which was needed could only be achieved through protection, which was legal both under the General Agreement on Tariffs and Trade (GATT) and under the rules of the European Economic Community (EEC). The Government should seek international support for a protectionist strategy which would involve both import controls on manufactures and, at least for an interim period, exchange controls to check speculative outflows and facilitate a differential rate of interest for official holders of sterling, together with control of bank advances and reserve powers to introduce planning agreements. Not to have even attempted to agree such a set of policies internationally would be inexplicable to the Labour movement. If the Government deflated, undermined the industrial strategy, cut back social security benefits and accepted international control of the country's economic affairs, their political stance would be impossible. Under his proposals the Government would be seen to be defending the national interest, and in his view in this situation the IMF might well be prepared to make the loan available; but if they did not, the Government would have a tough self-reliant strategy to follow. He saw no prospect of survival for the Government if they allowed unemployment to increase in order to meet the demands of international bankers. The effect of the policies he proposed would be to bring about a more rapid recovery of employment than the other proposals before Cabinet.

THE SECRETARY OF STATE FOR THE ENVIRONMENT agreed that the choice before the Cabinet was deflation or some alternative strategy. The Chancellor of the Exchequer was proposing a reduction of £1 billion in public expenditure in 1977-78 - which would increase unemployment - to be followed by a further cut of £1 billion in 1978-79. This would be a political tomb for the Government. In response to such measures the IMF would issue the loan in tranches to enable them to police the United Kingdom's economic behaviour and would require a Letter of Intent ruling out import controls. In his view the heart of the country's present problems was that we were running a deficit on our current account and had exhausted all possible sources of borrowing. It was therefore necessary to close

the trade gap and get into surplus as quickly as possible, and the best and speediest way of doing this would be by imposing controls on imports. He did not share the views of those who wanted such controls for a prolonged period, since he did not believe that British industry would achieve the necessary regeneration behind protective barriers. All he wanted was to get into current balance as soon as possible. It had been objected to this course that it would provoke retaliation; but he pointed out that under Article XII of the GATT, paragraphs 1 and 2 (a) (i) and (ii) of which he quoted <u>in extenso,</u> such action by the United Kingdom was fully justified and there was no provision for retaliation by other members (unlike the position under Article XIX, which dealt with selective controls, and which did concede such a right). The trade pledge entered into by members of the Organisation for Economic Co-operation and Development, which the Government had twice reaffirmed, contained the reservation that it was dependent upon the surplus countries behaving in such a way as to stimulate world trade, and the failure of the surplus countries in this respect removed any inhibition on account of that pledge. It was true that there was some risk of emulation by those in a similar position to the United Kingdom. Italy would undoubtedly follow suit, and just possibly France and perhaps such countries as Australia, New Zealand and Canada, who were all in balance of payments difficulties; but the major surplus countries - the United States, West Germany and Japan - would have no right to do so. In his view it should be possible to adopt import controls and to persuade other countries that it was sensible for us to do so. This would lead to a surplus of £4 billion on current account in 1978. Admittedly there remained the short term problem of obtaining the necessary financial assistance to cover the immediate period of difficulty, but it should be possible to bridge this gap, perhaps by introducing import deposits. The IMF could not afford to refuse help to a major democracy, but if this should happen one alternative possibility would be to seek to roll forward to a later date the repayment of the short term standby credit, at present due to be repaid on 9 December. Another possibility would be to arrange for the mobilisation of the country's capital assets and arrange for their orderly release until the current account deficit was closed.

THE FOREIGN AND COMMONWEALTH SECRETARY said that neither of the strategies proposed by the Secretary of State for Energy or the Secretary of State for the Environment were necessary on economic merit. The Government's present economic strategy was working and the case had not been made out either for import restrictions or for a further deflation of £1 billion. In his view expenditure cuts on such a scale would be disastrous. If the IMF pushed the Government that far, it would become necessary for the Prime Minister to state publicly that the only alternative to such a course would be a siege economy. The reaction to such a threat would be that the United States and Germany would ensure that the IMF would act in such a way as to avert that possibility. The question

was: what deal would be tolerable with the IMF. In his view it would be acceptable to cut the public sector borrowing requirement (PSBR) by £1 billion as long as this was done mainly by non-deflationary measures, such as the sale of the British Petroleum shares. Quota restrictions would be wholly inconsistent with the IMF's attitude; but it might be possible to do something about import deposits. Taken with £1 billion of other cuts, the PSBR would go below £8½ billion in 1977-78, and this would appear the more acceptable as being part of a larger strategy. The deflationary effects of import deposits were very much less than those of comparable expenditure cuts. When the announcement of an agreement with the IMF was made, the Government should at the same time announce the cuts which they had recently agreed but not yet made public - although he accepted that this was a presentational point only, since the cuts were policy changes needed to keep expenditure within planned limits.

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

a. It was by no means clear, given the limited scale of the United Kingdom's foreign exchange reserves, that if a policy of import controls were adopted it would be possible to finance the external deficit, which would inevitably persist for some time, without having to resort to such steps as drastic rationing. It might be, as the Secretary of State for the Environment had suggested that, faced with proposed action under Article XII of the GATT, the IMF would make the loan available; but if this proved wrong the country could be facing a bankrupt situation. It had been argued that it would be necessary to impose exchange controls at the same time as import controls in order to stop a capital outflow; but it was pointed out that the United Kingdom in fact enjoyed a net inflow of capital, since much of what was scored as an outflow was in fact capital investment overseas from retained profits.

b. It was suggested that if, as part of the price of a loan, the IMF required an undertaking that import controls would not be introduced, then a decision against them now could not be reversed: but it was pointed out that the Letter of Intent would only specify the need for prior consultation. The IMF would wish to monitor the United Kingdom's progress over a two-year period and they would propose to spread the release of the loan over that time - although it was hoped to get a large part of the loan as soon as the agreement was signed.

c. It would be a mistake for those who regarded it as of great importance that the United Kingdom should have the loan to underestimate the negotiating power which this need placed in the IMF's hands. Furthermore, the IMF view was that the present exchange rate was too high rather than too low, so that they might well be prepared to go to the absolute limit in negotiation.

d. There must be doubt about the Foreign and Commonwealth Secretary's proposal that, if the IMF pushed for large expenditure cuts, the Prime Minister should state publicly that a seige economy was the inevitable alternative. Such a move could lead to a collapse of confidence which made it an extremely risky procedure.

e. A go-it-alone policy was not viable, since the country would be unable to finance the needs of her basic industries. Import deposits were not a painless alternative, and it was recalled that the import surcharge scheme of 1964 had provoked strong opposition in the countries of the European Free Trade Area and a withdrawal of their co-operation in wider fields. Action on imports was contrary to the interests of a country which, like the United Kingdom, traded world-wide. The reaction of the EEC would need to be considered, particularly on such otherwise unrelated issues as the Green Pound, through which the United Kingdom was at present enjoying a subsidy of some £500 million a year.

f. Rising unemployment was inevitable under any of the policies before the Cabinet. The rationalisation of industries such as shipbuilding, aircraft and the motor car industry, as well as coal and steel, was all aimed at improving productivity and thus - at least in the short term - increasing unemployment. It had to be remembered that, thanks to the Labour Government, the worst of the misery had been taken out of unemployment by the payment of reasonable levels of benefit.

g. It would be important to avoid making the mistake of doing too little - even if that were enough to get the loan - and then having to do more and worse at a later stage. It was by no means clear that £1 billion off the PSBR by means which would not affect employment would create the necessary market confidence; while import deposits involved grave disadvantages in the second year when their effects were reversed.

h. If it proved possible later to reduce personal direct taxation, this would release a considerable fund of goodwill among Labour Party supporters. It might be worth considering the possibility of differential taxation in favour of those who worked in specified sectors such as manufacturing industry. More immediately, the possibility of an increase in Value Added Tax should not be ruled out, since the effects of this on the retail price index would probably be less damaging than that of a fall in the value of the pound.

i. All the main schemes put before Cabinet had three aims in common: first, the desirability of obtaining the IMF loan if this were possible; second, the need to cut imports, whether by controls or by higher unemployment; and third, the survival and improvement of British industry. These three ends would be best served by adoption of the scheme put forward by the Secretary of State for the Environment.

j. It was argued that although the morale of the Party was very low, it would hold together to put through the Chancellor of the Exchequer's proposals. Against this the view was taken that it was too much to ask the Government's supporters to stomach a third package in a year, including cuts in the social security field which required legislation.

THE CHANCELLOR OF THE EXCHEQUER said that the Cabinet must decide which of the courses before them was the least disagreeable. His proposals had been condemned as deflationary, but he reminded Cabinet that the large PSBR in prospect was inflationary and a cut in it would simply modify the degree of inflation. The under use of capacity in the country was part of a world phenomenon. In his view the right adjustment to make to such a situation must take full account of the monetary and financial factors and the effect they had upon the real economy. The PSBR had to be cut because it was impossible to finance it at the prospective high level save by printing money or maintaining excessive interest rates. Without the IMF loan the external deficit could not be financed, there would be no safety net for the sterling balances, no acquiescence by other countries in a scheme of import deposits, and no bilateral lending. He reminded Cabinet that if, in the event, the PSBR looked like being lower than now forecast, it was always possible to feed demand into the economy through cuts in taxation in the Budget, a course which would prove extremely popular. In his view failure to reach agreement with the IMF would cause unemployment to rise very rapidly. A siege economy of the kind envisaged by the Secretary of State for Energy implied also a command economy, which was contrary to the maintenance of the mixed economy to which the Government was committed. The Secretary of State for the Environment's alternative would not cut unemployment, and being a short term policy designed to last only until the balance of payments was in surplus, it involved all the short term disadvantages without any of the longer term prospects of improvement. He reminded Cabinet that effectively action had already been taken on imports since the depreciation which had taken place in the exchange rate since 1975 had been equivalent to a tariff of 25 per cent.

THE PRIME MINISTER, summing up the discussion, said the Cabinet had now reached a point at which it should be possible to reach a conclusion on the general economic strategy to be adopted. It was clear that the majority were not in favour of adopting a strategy which would involve quota restrictions on imports; and that they would support the continuation of efforts to reach agreement with the IMF on the loan - although some members of Cabinet who favoured this course would wish to reconsider the alternative, protectionist strategy if the terms of an IMF loan proved to be too arduous. No agreement had however yet been reached on the question of the size or composition of the package which the Cabinet would endorse either on its own merits or in order to obtain the loan. At their meeting on the following day they would need to decide the amount by which the PSBR should be reduced, and, in very broad terms, how such a reduction should be achieved. Further detailed discussion would of course be necessary subsequently in order to settle the precise make-up of the package; but the Cabinet needed to settle without further delay what proposal to put to the IMF. He indicated that he would be seeing certain members of the TUC that evening and would listen to their views and inform them, as far as he properly could, of the situation. He observed that in his view the state of the Labour Party was not, perhaps, as bad as some had suggested, and that there was a growing understanding of the situation which had to be faced and an increasing will to come together in a closer unity.

The Cabinet -

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

Cabinet Office

1 December 1976

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CM(76) 36th Conclusions

COPY NO 77

CABINET

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

THURSDAY 2 DECEMBER 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 Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security
(Items 2-4)

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

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

SECRETARIAT

Sir John Hunt	
Sir John Garlick	(Item 3)
Mr G R Denman	(Item 2)
Mr W I McIndoe	(Item 1)
Mr D le B Jones	(Item 4)
Sir Clive Rose	(Item 2)
Mr J A Marshall	(Item 4)
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 following week.

FOREIGN AFFAIRS

Southern Africa

2 THE FOREIGN AND COMMONWEALTH SECRETARY said that a compromise agreement had been reached at Geneva on the question of the independence date. Although it would be necessary to return to this subject later, the compromise had made it possible to move on to discussion of the form and structure of the interim administration. Mr Richard had held a round table meeting on this subject with all delegations on 1 December and there was to be another today. The Foreign and Commonwealth Secretary said he would be announcing in the House on 2 December our willingness in principle to play some direct role in Rhodesia during the interim period, but that we could not determine exactly what that role should be until we saw what emerged from the negotiations. He proposed to leave open until early next week a decision on what more should be said about this, in order to see first what came out of the discussions in Geneva over the next four days. At present the signs were relatively good. The two main questions however still were whether Mr Mugabe really wanted a settlement and whether Mr Smith would be prepared to settle on any basis which the Nationalists could accept. In the wider context of Southern Africa, a Rhodesia settlement was one of three elements. The second was Namibia which he had expected would go better than Rhodesia, but on which there was little sign of movement so far. But progress on Namibia was a pre-condition of any progress on the third and main problem of South Africa itself.

THE PRIME MINISTER said that at the dinner for Heads of Government at the European Council President Giscard d'Estaing of France had pressed him to agree that Britain should take a much more active part in Rhodesia in view of the importance of reaching a settlement. Herr Schmidt, the Federal German Chancellor, had asked whether a Rhodesian settlement would buy time for South Africa or result in South Africa coming under increased pressure; Herr Schmidt himself thought it would buy time. The Prime Minister had said, and President Giscard had agreed, that he believed it would result in increased pressure. The Prime Minister had suggested that the European Economic Community should work out an agreed position on South Africa. This would be particularly important in view of the fact that France, Germany and the United Kingdom would all be members of the Security Council next year. It had been agreed that officials should be asked to work out a joint strategy for consideration by Foreign Ministers.

The Cabinet -

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

Meeting of the European Council 29-30 November

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 The Hague on 29-30 November. He had been able successfully to deflect criticism of the Green Pound to criticism of structural agricultural surpluses. On the North/South Dialogue there had been divergent views with the French in particular sympathising with the developing countries but Herr Schmidt had insisted on a hard line. Agreement had been reached on a declaration by the Council on trade between the European Economic Community and Japan and it was to be hoped that constructive discussions could start soon with the Japanese. The Tindemans Report had been given a decent burial. And the review of the Commission had been set in hand. But beyond these particular points what had struck him most about the operation of the Council in this and in previous meetings was the fact that at its present stage of development, and with the strong anti-interventionist views in particular of Herr Schmidt, who probably seemed more confident about the development of the German economy than he in fact was, the Community was not in a position to deal with the economic and monetary problems which faced it. This was a problem to which the Cabinet might at some future stage return.

The Cabinet -

2. Took note.

DEVOLUTION

The English Dimension

3. The Cabinet had before them a memorandum by the Lord President of the Council (CP(76) 120) to which was attached the draft of a consultative document on devolution and England.

THE LORD PRESIDENT OF THE COUNCIL said that the immediate purpose of the document was to help with the passage of the Scotland and Wales Bill by making it clear that the Government were aware that devolution to Scotland and Wales had implications for England and that they were ready to listen to views about future arrangements in England. The draft before the Cabinet did not contain commitments but aimed to remove misconceptions about the scope of the proposals for Scotland and Wales, to expose the options for change in England and to test English opinion generally. The Government were committed to issuing the document before Second Reading of the Scotland and Wales Bill and publication should therefore take place the following week.

In a brief discussion, it was pointed out that the only two possible forms of change that were ruled out in the document - an English Assembly and regional assemblies with legislative powers on the Scottish model - had few adherents and were open to clear and persuasive objections. Possibilities discussed included regional assemblies on the Welsh model; regional authorities as a tier of local government; improved regional advisory bodies; and some reform of local government within the existing structure.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet noted that the draft contained no Government proposals or commitments. The question of what action, if any, should ultimately be taken would come back to them later. They approved the draft for publication before Second Reading of the Scotland and Wales Bill. Any minor drafting amendments should be sent to the Lord President by 10.00 am on the following day.

The Cabinet -

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

2. Invited the Lord President of the Council to arrange publication accordingly.

IMF NEGOTIATIONS

Previous Reference: CM(76) 35th Conclusions

4. The Cabinet resumed their discussion of the negotiations with the International Monetary Fund. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

2 December 1976

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CABINET

LIMITED CIRCULATION ANNEX

CM(76) 36th Conclusions Minute 4

Thursday 2 December 1976 at 10.00 am

IMF NEGOTIATIONS

Previous Reference: CM(76) 35th Conclusions

The Cabinet had before them three memoranda by the Chancellor of the Exchequer (CP(76) 121, 123 and 126), a memorandum by the Secretary of State for Foreign and Commonwealth Affairs (CP(76) 118), a memorandum by the Secretary of State for the Home Department (CP(76) 115), a memorandum by the Secretary of State for Employment (CP(76) 119) and two notes by the Secretary of the Cabinet (CP(76) 113 and 114), all relating to proposals affecting the public sector borrowing requirement; together with three memoranda by the Chancellor of the Exchequer (CP(76) 111, 122 and 125), a minute by the Secretary of State for Education and Science to the Prime Minister dated 1 December 1976, and a note by the Central Policy Review Staff (CP(76) 116) which were also relevant.

THE CHANCELLOR OF THE EXCHEQUER said that at their discussion the previous day the majority of the Cabinet had been against adopting an alternative strategy involving import restrictions. The next step was to seek an agreement with the International Monetary Fund (IMF) in order to obtain the loan. They had to consider what adjustments should be made in their existing strategy; and whether those adjustments would satisfy the IMF and the markets. The Public Sector Borrowing Requirement (PSBR) must be cut below the forecast level, not only because this was what the IMF wanted, but because it would be impossible to finance it without either severe inflation - which could cause a collapse of confidence - or a level of interest rates so high as to cripple British industry. A high PSBR was inflationary, and all foreign governments and many friends of the United Kingdom overseas would reject the view that to cut it was to take deflationary action. Our potential creditors regarded the present PSBR as inconsistent with credit-worthiness. In his view what was needed was an adjustment in 1977-78 of £1½ billion, of which £500 million would be found by the sale of British Petroleum (BP) shares and the balance by a net reduction of £1 billion in public expenditure, composed of a

larger gross cut offset by some additional expenditure to assist industry and stimulate employment. The nature of the reduction should be such as to produce a cut of £1½ billion in 1978-79, which would then leave a further £½ billion to be found in that year either from tax adjustments or from further public expenditure cuts. Such action would produce a PSBR in 1977-78 of £8.7 billion; would reduce the growth of the Gross Domestic Product (GDP) in 1977 by one half per cent below the forecast, while allowing GDP to increase by 3½ per cent in 1978; it would add one-half per cent to the Retail Price Index; and would reduce the balance of payments deficit in 1977 to £1 billion, and lead to a surplus in 1978 of £2½-£3 billion. Its effect on unemployment would be to increase it above the present forecast by 30,000 by the end of 1977, and by 110,000 by the end of 1978, but he would propose that these effects should be offset by micro-economic measures. In the view of the IMF, if an adequate package were agreed and announced, its effect upon interest rates and upon confidence would be such as to mean that the net effect of the package would not be deflationary, remembering that interest rates affected levels of stock-building, investment, house-building and the sale of consumer durables, as well as the whole tone of the economy - there could, for example, be a fall in personal savings. He did not necessarily go all the way with the IMF on this, but was satisfied that there would be some such effect. Certainly anything less than his proposal would not restore confidence, even if it were possible to persuade the IMF to accept it. He appreciated that any forecasts contained great uncertainties, and if the Treasury forecast was shown by events to be too pessimistic, he would be ready to feed demand back into the economy through income tax reductions in the next two budgets. It was his opinion that in any case there would have to be income tax cuts, at least at the top and bottom ends of the scale, in 1977, financed if necessary by increases in indirect taxation or by some cuts in public expenditure with little demand content. There was much resentment among the low paid over the narrow gap between pay in work and social security benefits. It was by no means certain that the IMF would agree to his proposals, but he hoped that agreement might be reached through negotiation. He was clear that there was no hope of selling any lesser package. If an agreement could be reached, then the United Kingdom would not only get the loan but would also almost certainly get the benefit of an international arrangement to cover the sterling balances, and perhaps also international acquiescence in the introduction of import deposits if that was what Cabinet wanted. He had doubts about the value of the last, particularly because of the effect upon the PSBR when it came to be unwound. If imported goods required for United Kingdom manufacturing industry were excluded, it might be possible to persuade the Confederation of British Industry (CBI) reluctantly to accept such a scheme, the inclusion of which in the package was attractive for political reasons. He reminded Cabinet that the risks

arising from a failure to reach an agreement with the IMF were far greater than the small economic advantages which would flow from a smaller package. It was essential for the Government to provide themselves with some leeway in order to avoid any risk of the need of a further package later.

THE PRIME MINISTER said that he believed that the country was better informed about the nature of the problems they faced than was sometimes thought. He himself had earlier been uncertain what was the best course to adopt and had profited from the discussions they had had; but the time had now come to take decisions, and he had been asked to make his position clear. The issues involved political, economic and financial judgments of a difficult character. The package proposed by the Chancellor of the Exchequer would probably have an adverse effect both on the Government's supporters in the House of Commons and on the trade unions; but not, he would judge, on the public at large. The reaction of Labour MPs would, however, be important; the Chief Whip had advised him that it was imperative to refrain from public expenditure cuts which involved legislation since the passage of such legislation through the House of Commons could not be guaranteed. Nevertheless he himself supported the proposal to find cuts of £1 billion in public expenditure. This would lead to an early reduction in interest rates which was psychologically important. He also agreed that income tax rates should be cut at both the top and bottom of the scale and believed there would be support in the country for that. He drew attention to the fact that if Cabinet agreed to cuts of £1 billion they would later have to settle the composition of such cuts and this could mean difficult choices, eg between reductions in capital spending which would kill the construction industries or taking action to reduce future increases in social security benefits. The statutory requirement that upratings of benefits should be in line with movements in either wages or prices, whichever was the higher, had meant that the pensioners had improved their position relative to the workers in the last two years, and there was a good case in logic for treating the pensioner no better than the worker in future upratings; but it had to be appreciated that in putting such a proposal to the House of Commons the Government would be putting their own life to the test.

No agreement had so far been reached with the IMF. He and the Chancellor had met Dr Witteveen, the Director General of the IMF, who had come to London the previous day in a somewhat unyielding frame of mind, still adhering to the view that there should be a cut of £1½-£2 billion in public expenditure in 1977-78. There was therefore still some way to go before agreement could be reached. He had, since the Cabinet last discussed the matter, been in touch both with the Chancellor of West Germany and with President Ford

of the United States, and had received assurances that an arrangement on the sterling balances would be likely to be negotiable if agreement could be reached with the IMF on the loan. He had mentioned to both of them, without any commitment, the possibility of introducing a scheme of import deposits because, although he recognised the strength of the argument against such a scheme, it could be politically very helpful domestically. He noted the importance of finding ways of strengthening the industrial strategy. Finally he emphasised to his colleagues the gravity of the decision confronting them. If the Government agreed upon a package, presented it to the House of Commons, and failed to carry it there, the life of the Government would be at an end. On the other hand, if the Chancellor of the Exchequer's proposal was rejected, then in his view the attitude of even friendly overseas governments and the effect on the market would be such that there was no chance of the Government surviving anyway. Both the life of the Government and the very heart of the Labour movement were involved in the decision which they now had to take.

THE LORD PRESIDENT OF THE COUNCIL said that in his view the proposal put forward by the Chancellor of the Exchequer was not acceptable. In the summer the Cabinet had agreed to certain policy changes on the grounds that they would avoid the need to go to the IMF for a loan. The Cabinet must certainly not be prepared to accept the need for a loan at any price. For a Labour Government the whole perspective had been altered by the Treasury forecast that unemployment would rise to $1\frac{3}{4}$ million by the end of 1977. This meant increases in unemployment month by month throughout the whole of the coming year unless some policy changes were adopted. Yet the proposals put forward by the Chancellor of the Exchequer would actually add to this forecast of $1\frac{3}{4}$ million. This was politically quite intolerable and even if the Cabinet were able to win the acceptance of the Party in the near future, they would undoubtedly lose it at a later stage. Equally he found unacceptable the proposal that income tax should be cut at the top end of the scale at a time when the uprating of social security benefits was to be cut back and unemployment allowed to rise. This would run contrary to the egalitarian basis of the pay policy and the leaders of the trade unions would either reject it or would themselves be destroyed by their own members. On the proposal to reduce the uprating of social security benefits, he was in no doubt that a large section of the Parliamentary Labour Party would oppose it, and there could be no greater humiliation than either to be defeated on such an issue or to carry it with the help of Opposition votes. In his view there was no hope of carrying such a proposal and it should be dropped. It might be true that the country would take a different view from the Party, but the country was being misled by a Press which was bitterly hostile to the Labour Government. It was more important

that the Labour movement should hold together than that they should stay in Government although he wanted also to do the latter. In his view a new package of proposals should be worked out, on the basis of those which had been put forward in the minute from the Secretary of State for Education and Science, which might include some cuts in roads expenditure and some saving from tax relief on mortgage interest. This should then be put to the IMF and argued for strongly. If agreement could not be reached the Government would then have to consider contingency measures, such as import controls (on which no final decision had been taken the previous day). Even if the IMF turned it down, a non-deflationary programme at least put the Government in a reputable situation in the coming months, so that even if they found themselves in opposition they would not have conceded the case for higher unemployment or lower social security benefits. In his view the Government could not possibly survive on the basis of the proposals before Cabinet. They should sustain policies which were related to their beliefs, even if this meant they did not get the loan.

In the ensuing discussion all the other members of Cabinet expressed their views on the proposals which had been put forward by the Chancellor of the Exchequer. In the course of this, the following additional points were made -

a. The Prime Minister's statement was an important new factor, both because it reflected his own judgment of the situation and because the consequences for the Party and for the country would be very serious if it became known that proposals supported by both the Prime Minister and the Chancellor of the Exchequer had been rejected by the Cabinet.

b. The purpose of any adjustments would be to ease the problem of financing the large PSBR; but since this involved the risk of deflation, it should be made clear at the time an announcement was made that any excess deflation which emerged would be offset by tax reductions, assistance to industry or measures to combat unemployment. It was also suggested that in such circumstances there might be a reversal of some of the public expenditure cuts; but against this it was argued that if the IMF aim of a PSBR of £6½ billion in 1978-79 were to be achieved it would not be open to the Government to make such easements in 1977.

c. The unemployment rate in the United Kingdom at 6.9 per cent was higher than that in Germany, France or Sweden and was only one-half per cent behind that of the United States and Canada. Since the Government took office unemployment had increased by 2.8 per cent - the biggest rise in any industrialised country. The proposals in the memorandum by the Secretary of State for Employment (CP(76) 119) had been designed with the forecast of a rise to $1\frac{3}{4}$ million in mind; they would be inadequate if the Chancellor of the Exchequer's proposals were adopted, leading to even higher unemployment. Any possibility of persuading the TUC and the CBI to adopt such arrangements as work sharing would vanish.

d. An uprating in 1977 related to the movement in earnings rather than prices might be welcomed by trade unionists, but the Government could well be defeated on it in the House. Not all social security benefits were as high as was sometimes imagined. For example, if earnings-related benefit and tax refund - which were available only to about one in four of unemployed persons - were put on one side, unemployment benefit for a single man was only £12 a week, for a married man £21 a week, and for a married man with two children £27 a week. These were not large payments, and with inflation going up over the next year it would be appalling to contemplate restricting the uprating.

e. It was suggested that the difference between the proposal put forward at the previous meeting by the Foreign and Commonwealth Secretary and that now put forward by the Chancellor of the Exchequer was not a fundamental one. On the other hand it was argued that the extra £$\frac{1}{2}$ billion would involve doing things which were socially intolerable. The Labour Party was a party of high taxation, high public expenditure and high transfer payments: and it should not be assumed that the Government's supporters would be prepared to abandon these basic beliefs in order to make cuts which were economically unjustified. Income tax reductions at the top end of the scale would also mean reversing the egalitarian element in the social contract. The Chancellor of the Exchequer's proposals were a crisis plan, based on Treasury forecasts which had consistently been wrong, and founded on a monetary theory which the Labour Party did not accept.

f. The Cabinet thought that they had made sufficient reductions in July in order to restore external confidence, and it was a matter of deep regret that they were now facing the need for doing more. This must however be the final such package of the Parliament or the Government would be placed in a hopeless position. It was therefore essential to err on the side of doing too much rather than too little with the prospect of easing up later on if they had done too much.

THE PRIME MINISTER, summing up the discussion, said that on import deposits a number of doubts had been expressed by members of Cabinet and there was no question of taking a decision on that at the present meeting. He had himself taken soundings on this with certain Heads of Government so that, if the Cabinet wished to include it, they would know whether it would be likely to be acceptable; but equally the Cabinet need not proceed with the idea if on mature consideration they did not wish to do so. Its initial impact on the public sector borrowing requirement was however very helpful and it could make the whole package more acceptable to the Trades Union Congress. On the major issue before Cabinet - the reduction in the public sector borrowing requirement which they should put as their offer to the IMF - the majority took the view that in order to get the loan there should be adjustments of £1½ billion in 1977-78 which the Chancellor had said should lead to one of £2 billion in 1978-79. There were however differences of view within this majority over the best composition of such an adjustment, and over the reasons why it should be made. At the same time there was a group of members of Cabinet who regarded a £1½ billion cut as unacceptable, and for whom some elements in such a total would be repellent. That group was, however, a minority, and the majority felt that the Chancellor of the Exchequer should have authority to offer to the IMF a reduction of £1½ billion in 1977-78. In doing this the Chancellor would have it in mind that £500 million would be realised in 1977-78 by the sale of BP shares, and the balance of the rest made up mainly by public expenditure cuts. There were some members of Cabinet who would want a larger tax element in the total: this was something which Cabinet would need to discuss further the following week, though the wrong composition might mean that the markets would not be convinced of the adequacy of the package. He stressed that all that was being agreed was that the Chancellor of the Exchequer should put his proposal to the Fund. A final decision would be taken by Cabinet after the results of this approach to the Fund were known, and when the whole package could be seen in its entirety.

The Cabinet -

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

Cabinet Office

3 December 1976

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CM(76) 37th
Conclusions

COPY NO 77

CABINET

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

MONDAY 6 DECEMBER 1976

at 3.30 pm

PRESENT

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The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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

SUBJECT

IMF NEGOTIATIONS

IMF NEGOTIATIONS

Previous Reference: CM(76) 36th Conclusions

The Cabinet resumed their discussion of the negotiations with the International Monetary Fund. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

6 December 1976

~~TOP SECRET~~

SECRET

Copy No. 36

Downgraded to SECRET PS(76) 41 refers

CABINET

LIMITED CIRCULATION ANNEX

CM(76) 37th Conclusions

Monday 6 December 1976 at 3.30 pm

IMF NEGOTIATIONS

Previous Reference: CM(76) 36th Conclusions Minute 4

The Cabinet resumed their discussion of 2 December 1976.

General

THE PRIME MINISTER said that the task now before Cabinet was to give substance to the fiscal adjustment of £1 billion in 1977-78 which they had the previous week agreed should be offered to the International Monetary Fund (IMF). It was now a matter of urgency to bring this to a conclusion. On present plans a week was needed between final decisions and a public announcement, but he doubted, given the extent to which the Cabinet discussions had already been made known to the Press, whether it would be possible to tolerate so long a gap. In addition to the composition of a fiscal package, the Cabinet would need to take a decision about import deposits and about the sale of the British Petroleum (BP) shares.

THE CHANCELLOR OF THE EXCHEQUER said that it was necessary to have a week between decisions and announcement in order that the effects upon the public sector borrowing requirement (PSBR) and domestic credit expansion (DCE) could be worked out - a process which would take three or four days - before insertion in the letter of application to the IMF. Furthermore, only after a decision on an agreement with the IMF on the loan would it be possible to bring the negotiations on a safety net for the sterling balances to a head with the countries concerned. On the question of import deposits, the United Kingdom had a legal obligation to give at least 36 hours

notice of their implementation to the IMF and to the European Economic Community. In his view the presentation of the package in the House of Commons would require very careful consideration. There was therefore no real chance of a statement being made in the course of the current week.

Reporting on the developments since the last Cabinet discussion, he said that the IMF had now with some reluctance agreed to the proposal which Cabinet had endorsed, namely that there should be an adjustment of £1½ billion in 1977-78, of which £½ billion would be realised by the sale of BP shares, with an adjustment of £2 billion in 1978-79, of which at least £½ billion would be achieved through taxation changes. If the rate of economic growth in 1978-79 were below 3½ per cent, the United Kingdom would have the right to consult with the IMF on a lower adjustment; conversely if the growth rate were above 3½ per cent, the IMF would have the right to look for a larger adjustment. The Cabinet's immediate task was to agree upon the cut of £1 billion in public expenditure in 1977-78 and of £1½ billion in 1978-79. The raw material for this was in the paper he had circulated on 30 November (CP(76) 126) and in a revised version of Appendix A to the Treasury note attached to that paper. A copy of the revised appendix was then handed to each member of Cabinet.

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet took note that what had happened in Parliament in the preceding week on the Social Security Bill would need to be taken into account when they came to consider possible social security measures. It was firmly understood that all the provisional decisions they would take would be contingent on a final decision on the total package; and he gave an assurance that there would be no question of a last minute attempt to introduce a new element into the package which had not already been mentioned to the Cabinet - although import deposits would have to be considered separately after the expenditure changes had been settled. The Cabinet noted that the question of the sale of BP shares and of changes in the arrangements for export credits had yet to be discussed; but on the latter they noted that the Ministers concerned had had discussions with the major firms concerned which could lead to the savings needed without an increase in the minimum lending rate for sterling financing.

The Cabinet -

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

Defence

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet were agreed that for the moment savings of £100 million in 1977-78 and £200 million in 1978-79 should be scored against defence expenditure. They looked to the Secretary of State for Defence to report further the following day on the feasibility of making cuts of this magnitude. It was noted that the expenditure figures included in the public expenditure survey assumed the receipt of offset payments from West Germany of £50 million a year, and that if these were not successfully negotiated there would be a further problem to be solved.

The Cabinet -

2. 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 it was agreed that savings of £50 million should be scored in each year, but that when all other savings had been settled Cabinet should reconsider this item to see if they still wished to persist in making these cuts.

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 the Cabinet agreed that reductions of £150 million in 1977-78 and £60 million in 1978-79 should be made in food subsidies.

The Cabinet -

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

Construction

THE PRIME MINISTER, summing up a series of brief discussions on savings on construction programmes said that the Cabinet were in favour of a 6 months' moratorium on new construction in a number of public sector programmes and that, subject to certain reservations, the following savings should be scored

	1977-78	1978-79
Education	22	11
Water	75	130
Other Environmental services	50	Nil
Health and Personal Social Services	5	10
Property Services Agency	20	30
Courts	2¼	Nil

Of these savings, the Education figure excluded basic needs, and was made up of figures of 20 and 10 for England and Wales, with a proportionate addition for Scotland. The Secretary of State for the Environment would wish to consider the figures for Water expenditure further and report again the following day. The figures for the Property Services Agency were made up partly of £10 million in each year in respect of training facilities, on which the Training Services Commission would need to be consulted, and partly of savings on dispersal and other expenditure by the Agency, on which Cabinet would need further information in order to ascertain whether larger reductions might not be possible - although it was recognised that this gave rise to the difficulty that it could involve the cancellation of building projects in the heart of derelict areas in Liverpool and Glasgow, as well as the postponement of the provision of a purpose-built home for the Welsh Assembly. On the other hand, there was the danger of allowing building for dispersal to proceed, and then finding that staff cuts in the Civil Service meant that there were no staff to transfer to the new offices. The Cabinet would want further information on this urgently.

The Cabinet -

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

Roads

THE PRIME MINISTER, summing up a brief discussion, said that the Secretary of State for Transport had offered savings of £40 million in 1977-78 and £30 million in 1978-79 from a 12 months' moratorium on new road construction. Because road contracts ran for a long time, the proportion of the programme affected by a moratorium was small; and there was a general feeling in Cabinet that something more than this should be found from the Roads programme. Savings of £75 million in 1977-78 and £50 million in 1978-79 should provisionally be scored for Great Britain, and the Secretary of State for Transport should report the following day on ways in which this might be achieved. It had been noted that the possibility of imposing tolls on the use of motorways did not offer any immediate savings but should be further examined on a longer term basis.

The Cabinet -

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

Nationalised Industry Construction

THE PRIME MINISTER, summing up a brief discussion, said that it might be possible to make some savings, in terms of the call made by the nationalised industries on the National Loans Fund, if they could all be asked to make minor reductions in their spending programmes. This was not aimed at major productive investment, but at minor and peripheral expenditure, eg on showrooms, offices, distribution, etc. The Chief Secretary, Treasury, should consider urgently whether it would not be possible to save, say, £100 million in each of the two years in this way.

The Cabinet -

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

Housing

In discussion it was argued that, if the excess expenditure in 1977-78 - which arose solely from the allocation to this programme of the consequences of increased interest charges, something which had not been suffered by any other programme - were to be wholly offset, the only logical step to take would be to increase council house rents by £1.40 a week. Such an increase was not in fact proposed, although it was pointed out that owner-occupiers suffered

a direct and larger increase in their mortgage payments when interest rates rose. It would be possible to reduce the house-building programme, and a cut of 20,000 houses could save £200 million; but it was argued that, given the fact that the demographic forecast showed a continuing increase in the need for public sector housing, all this would do would be to build up a backlog of social misery for the future by lengthening waiting lists. Cuts in other housing expenditure, eg municipalisation, would be preferable to this. In any case, a moratorium on house-building could well lead to housing completions falling to the levels of the immediate post-war years. It might be possible to make some savings in the expenditure on improvement investment and perhaps on mortgage lending, although this had already been severely cut. It was noted that it had been claimed that there should be no Scottish counterpart to the English attempt to offset, in whole or in part, the excess expenditure of £220 million in 1977-78, since offsetting savings for this purpose had already been made in other Scottish programmes. It was also noted that, if there were to be any question of a further increase in council house rents, the possibility of some reduction in tax relief on mortgage interest should also be considered, at least in respect of the taxpayer who was paying tax at more than the standard rate.

THE PRIME MINISTER, summing up this part of the discussion, said that the Cabinet agreed that for the moment figures of £150 million for 1977-78 (ie £70 million less than the forecast excess on this programme) and £200 million for 1978-79 should be entered as savings on the housing programme for England, but that they reserved the right to reconsider these figures in the light of a report the following day from the Secretary of State for the Environment on how they might be achieved.

The Cabinet -

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

Community Land

THE PRIME MINISTER, summing up a brief discussion, said that a cut of £50 million in each year had been proposed; but it had been argued that this would be tantamount to repealing the Community Land Act, although this was not wholly true since the provisions of the Development Land Tax would continue to operate. However, on balance Cabinet favoured cuts of £35 million in 1977-78 and £50 million in 1978-79.

The Cabinet -

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

Health

THE PRIME MINISTER, summing up a brief discussion, said that the view had been expressed that the National Health Service (NHS) was on the brink of suffering serious damage, involving a reduction in the number of doctors and nurses and the closing of wards. In view of this it was proposed to make savings of £40 million in each year by an increase in prescription charges to 50p (but keeping more advantageous arrangements for the chronic sick) and of £10 million in each year from other NHS expenditure of which a part would fall on capital expenditure in addition to the six months' moratorium. This was a provisional decision, and some members of Cabinet might wish to look particularly again at the question of prescription charges.

The Cabinet -

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

Civil Service Staff Savings

THE PRIME MINISTER, summing up a brief discussion, said that the proposal had been made to save £30 million in 1977-78 and £8 million in 1978-79 by a squeeze on Civil Service manpower. It had been argued that higher savings could be obtained from a 12 month ban on recruitment; but that this would lead to Departments keeping on staff who were old and expensive instead of replacing by those who were young and cheaper; and that such a move would be popular with the public, but only until it became impossible to maintain essential services, eg the payment of social security benefits. For the moment savings of £30 million and £8 million should be scored against this heading, but the Lord Privy Seal should consider the matter further and make proposals the following day for higher savings.

The Cabinet -

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

Conclusion

THE PRIME MINISTER said that the Cabinet would resume its discussion of possible savings at a meeting the following morning.

Cabinet Office

7 December 1976

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CM(76) 38th
Conclusions

COPY NO 77

CABINET

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

TUESDAY 7 DECEMBER 1976

at 10.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

Rt Hon Michael Foot MP rd President of the Council	The Rt Hon Lord Elwyn-Jones Lord Chancellor
Rt Hon Denis Healey MP ncellor of the Exchequer	The Rt Hon Anthony Crosland MP Secretary of State for Foreign and Commonwealth Affairs
Rt Hon Merlyn Rees MP cretary of State for the Home Department	The Rt Hon Shirley Williams MP Secretary of State for Education and Science and Paymaster General
Rt Hon Anthony Wedgwood Benn MP cretary of State for Energy	The Rt Hon Eric Varley MP Secretary of State for Industry
Rt Hon Peter Shore MP cretary of State for the Environment	The Rt Hon Roy Mason MP Secretary of State for Northern Ireland
Rt Hon Bruce Millan MP cretary of State for Scotland	The Rt Hon John Morris QC MP Secretary of State for Wales
Rt Hon Fred Mulley MP retary of State for Defence	The Rt Hon Albert Booth MP Secretary of State for Employment
Rt Hon David Ennals MP retary of State for Social Services	The Rt Hon Edmund Dell MP Secretary of State for Trade
Rt Hon Lord Peart d Privy Seal	The Rt Hon John Silkin MP Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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

SUBJECT

IMF NEGOTIATIONS

IMF NEGOTIATIONS

Previous Reference: CM(76) 37th Conclusions

The Cabinet resumed their discussion of the negotiations with the International Monetary Fund. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

7 December 1976

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SECRET

Copy No. 38

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CABINET

LIMITED CIRCULATION ANNEX

CM(76) 38th Conclusions

Tuesday 7 December 1976 at 10.30 am

IMF NEGOTIATIONS

Previous Reference: CM(76) 37th Conclusions

The Cabinet resumed their discussion of 6 December 1976. A table setting out the position reached at the previous discussion was handed round at the beginning of the meeting. The Cabinet also had before them a memorandum by the Lord Privy Seal (CP(76) 127) about pensions increases in the public sector.

School Meals

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet appeared to have a choice between reducing the unit cost of a school meal, by replacing the present hot meal service with a pre-packed cold meal with milk, or reducing the entitlement of staff to free meals. The former did not find favour with the Cabinet, and it was therefore agreed that savings of £10 million in 1977-78 and £10 million in 1978-79 should be made by reducing staff entitlement to free meals.

The Cabinet -

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

Social Security

THE CHANCELLOR OF THE EXCHEQUER said that something like one-fifth of all public expenditure went on social security payments. Previously this programme had been sacrosanct, and the other four-fifths of public expenditure had taken the brunt of all cuts. By their policy over the last few years the Government had reduced the differential between the living standards of those in work and the

living standards of those in receipt of long-term benefits; but if this process were continued under the existing statutory mechanism it could produce a backlash which could damage the Party. He referred to the poverty trap and to the fact that the uprating of Supplementary Benefit in 1977-78 would cost £620 million, while to give the same advantage to those in work through a revalorisation of tax allowances would cost something like £1,240 million. This cost could be met by increasing the rate of Value Added Tax to $12\frac{1}{2}$ per cent across the board, and this might be a sensible step to take: but it would add 2 per cent to the Retail Price Index (RPI), and this would only be possible as part of a wider negotiation on Round 3 of incomes policy. In his view if the Government did not take some action to prevent a further narrowing of the gap between the low paid and those not in work, there would be a revolt among the low paid which would sweep the Government out of office. He would therefore favour legislation to enable the Government to uprate benefits in line with net earnings, instead of in line with prices, thus saving £160 million in 1977-78 and £430 million in 1978-79.

THE SECRETARY OF STATE FOR SOCIAL SERVICES argued that there was undoubtedly a problem over the poverty trap which needed to be tackled; but it should be done in open debate with the trade unions, as part of a revision of the social contract. It was quite impossible to take a decision on such a matter in the context of the current exercise, and to announce it without any prior consultation. It would in any case need fuller discussion in Cabinet, when he would himself wish to put in a detailed paper.

In discussion it was argued that it would be unthinkable to worsen the position of recipients of social security benefits at a time when, by the other elements in the package, the Government was creating additional unemployment. What were at stake were the principles upon which the country's social security system was founded, and it would be wrong to change them in the course of constructing the present package. In any case, the necessary legislation would not be passed by the House of Commons. This was true, not only of some adjustment to the statutory basis for uprating benefits, but also of changes to such features of the system as earnings-related benefit supplement. On the other hand it was argued that, if the Cabinet were concerned about the weakest members of the community, the weakest were not necessarily those in receipt of benefits, but those in geriatric and mental hospitals, and small children in nursery schools in deprived urban areas, whose interests the Cabinet were subordinating in their decision to cut the construction elements in the Health and Education programmes. The truth was that the narrowing of the gap in living standards between those in work and those not in work had gone on too rapidly,

and it was time to rein back the rate of change for a while. One other possibility would be to withdraw child tax allowances from non-resident children, which could save £20 million in 1977-78 and £15 million in 1978-79; but this, while it might be accepted in Parliament, would be seen as a breach of an agreement with the Trades Union Congress (TUC) and would hit some of the poorest people in the world.

THE PRIME MINISTER, summing up this part of the discussion, said that it was clear that views in Cabinet were divided on this issue, and that no agreement could be recorded for the moment.

The Cabinet -

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

Public Sector Pensions

THE LORD PRIVY SEAL said that the possibility floated in his memorandum was that the automatic link between increases in public service pensions and price rises should be suspended. If public service pensions were uprated in line with net earnings it would save about £13 million in 1977-78 and £91 million in 1978-79. Savings in the rest of the public sector might amount to half as much again. He reminded Cabinet that there were over one million public service pensioners (and over half a million in the rest of the public sector) many of whom received very small pensions. For this reason the proposal would be easier to implement if at the same time action were being taken to restrict the uprating of social security benefits.

THE PRIME MINISTER, summing up a brief discussion, said that it had been argued on the one hand that public service pensioners had done a good deal better than most private sector pensioners in the last two years; that to restrict future increases would be popular; and that it could be done regardless of the decision on social security benefit. On the other hand it was held that such a step would provoke the opposition of a whole series of well-organised bodies representing the staff affected - not only civil servants, but the police, firemen, teachers and nurses. There was no agreement in Cabinet on this point, and therefore no saving could be scored under this head at present.

The Cabinet -

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

Nationalised Industries

THE CHIEF SECRETARY, TREASURY said that at their meeting the previous day the Cabinet had provisionally scored £100 million of saving in each year from minor reductions across all nationalised industries, and had commissioned him to report how this might be achieved. He reminded Cabinet that the capital expenditure of the nationalised industries was no longer defined as public expenditure; but cuts in that capital expenditure which reduced the borrowing of the industries from the Exchequer would reduce the public sector borrowing requirement (PSBR). Without having consulted either the industries or the sponsoring Ministers, he thought it should be possible to get £100-£150 million from this source. However, the Short Term Economic Forecast had already subsumed £100 million of this, so that he would not look for a net saving of more than £50 million to be scored in the present exercise. On increasing prices, he thought that £50 million might be had from an increase of 8 per cent in gas charges. On an increase in telecommunications charges, he pointed out that there was already a profit of £400 million in that field, so that the industry's capital expenditure was already 99 per cent self-financing. The Government had, with considerable difficulty, got away from the distortion which had affected nationalised industry prices as a result of their having been held down in the wider interests of general prices policy, and to press the industries now to make further increases would not be well received. It would also be contrary to the recommendation in the recently received report of the National Economic Development Office, which favoured less Government interference in the industries. He therefore proposed £50 million net from minor capital expenditure savings, and £50 million from an increase in gas prices.

THE PRIME MINISTER, summing up a brief discussion, said that there was some feeling in Cabinet that action of the kind proposed would be damaging to the industrial strategy, and, indeed, that it was irresponsible to consider changes of this kind other than in full consultation with the industries concerned. On the other hand, the damage it would do might well be less than that resulting from some alternative reduction elsewhere. The Cabinet noted that an increase of 5 per cent in telephone charges would yield £120 millions, but given the present high level of Post Office profits it was felt that to impose such a charge would be treating it as a source of indirect taxation. On balance the Cabinet were in favour of scoring a total saving of £100 million here in each year, partly to be obtained through reductions in capital spending and partly through the increase in gas prices, although the Chief Secretary, Treasury should consult in the next few days with the Ministers directly concerned in order to settle how it should be achieved.

The Cabinet -

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

Regional Employment Premium

THE CHIEF SECRETARY, TREASURY said that he proposed the abolition of the flat rate £2 Regional Employment Premium (REP) which, although it was a Manifesto commitment, was now meaningless as an incentive. Abolition would save £150 million in 1977-78 and £170 million in 1978-79.

In discussion it was argued that REP was the least effective of all forms of regional assistance, representing only 2 per cent of wage costs, at which level it was ignored by industrialists. Its impact on employment had now been swamped by the impact of the Temporary Employment Subsidy. Moreover unemployment was now a problem which affected the whole country and not just the development areas. Against this it was argued that the abolition of REP could cost 10-15,000 jobs in Northern Ireland, where unemployment was already 10½ per cent, and a further 4,500 jobs in Wales. The gap between assisted and non-assisted areas had been greatly narrowed by the Government's regional policies until recently, but the gap was now widening, which made the abolition of REP a difficult step. It could be argued that in some cases the loss of REP would push an industrialist into making an application for Temporary Employment Subsidy, so that there might be little net saving.

THE PRIME MINISTER, summing up the discussion, said that, while there was a majority in Cabinet in favour of abolition, they could for the moment do no more than take note of that fact.

The Cabinet -

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

Minor Possibilities

THE PRIME MINISTER, summing up a brief discussion, said that the Cabinet agreed that there should be a cut of £1 million in 1978-79 in the expenditure of the Foreign and Commonwealth Office; and took note that the Minister of Agriculture would consider whether it would be possible to make a reduction of up to £10 million from agricultural grants.

The Cabinet -

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

Export Credits

THE CHANCELLOR OF THE EXCHEQUER said that the position as set out in the memoranda by himself and by the Secretaries of State for Trade and for Industry, circulated under cover of notes by the Secretary of the Cabinet (CP(76) 113 and 114) had now been overtaken by further events. He had discussed the matter with the other Ministers concerned, and the Secretary of State for Trade had since consulted the major firms involved to see whether it would be possible to achieve a sufficient switch from sterling financing into foreign currency financing without the increase of 2 per cent in the rate of interest charged for guaranteed sterling finance which he had proposed. As a result it now seemed likely that it should be possible to obtain a substantial switch in 1978-79. He himself would accept this as satisfactory if it were possible to agree at the same time that there should be a cash limit for the next two years placed upon the level of sterling financing.

THE SECRETARY OF STATE FOR TRADE said that it was not technically possible for him to accept a cash limit on the sterling financing, since he did not control the level of that financing which was itself a function of, on the one hand, the level of export credit made available and, on the other, the level of bank deposits. But he was quite clear that he could produce a sufficient saving in 1978-79 to offset what would otherwise be an additional bid of £150 million.

THE PRIME MINISTER, summing up a brief discussion, said that, in addition to the change proposed by the Secretary of State for Trade, an attempt should be made to persuade the clearing banks to take a yet higher proportion of this finance themselves. On this basis the Chancellor of the Exchequer should consider whether savings of £100 million in 1977-78 and £100 million in 1978-79 (the latter figure on the assumption that the additional bid in that year was wholly offset by switching into foreign currency financing) could be scored.

The Cabinet -

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

BP Shares

THE HOME SECRETARY said that he had set out the position reached in the Ministerial Committee on Energy in his memorandum (CP(76) 115). The question for decision was whether, if it proved impossible to sell the former Burmah shareholding in British Petroleum (BP) because of the claim for restitution which the Burmah Oil Company had brought against the Bank of England, the Government should instead sell part of their own shareholding and replace it with the former Burmah holding.

THE SECRETARY OF STATE FOR ENERGY said that, while he accepted the sale of the bulk of the former Burmah shareholding, the Government's own shareholding should not be sold. The shares had been purchased in 1914 by Sir Winston Churchill; they had not been sold through two World Wars; and they would undoubtedly rise in value. To sell them would be against both the Labour Party Manifesto and the latest version of the social contract. It would make a nonsense of the Government's oil policy, where the Government was seeking a majority holding in all North Sea oil activities; and would be ill received in Scotland. It would be seen as a psychological defeat for the Labour Party and would make no contribution to the problems of the country. Indeed, it was hard to see why the International Monetary Fund (IMF) should be impressed by it, since it in no way improved the economic situation.

THE PRIME MINISTER, summing up a brief discussion, said that there was a general feeling in Cabinet that the Burmah Oil Company should be pressed strongly not to persist in their claim for restitution, but to substitute for it a financial claim which would thus release the former Burmah shareholding for sale. However, the general view was that the Government should, if necessary, sell sufficient of their own shareholding to reduce the total joint shareholding of the Government and the Bank of England to not less than 51 per cent, the proceeds of such a sale being estimated at about £500 million in 1977-78. Sale of these shares would be a good deal less painful than any alternative saving of £500 million could possibly be.

The Cabinet -

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

Recapitulation

THE PRIME MINISTER said that the reductions which had, with some reservations, been provisionally agreed so far totalled £954 million in 1977-78. This left no room for additional expenditure to counter unemployment, as proposed by the Secretary of State for Employment in his memorandum (CP(76) 119). It would therefore be necessary to run through the list of possible savings a second time.

The Cabinet then proceeded to consider each programme again, with the following result:

i. Defence: No change.

ii. Overseas Aid: No change.

iii. Food subsidies: The agreed savings were amended to £160 million in 1977-78 and £57 million in 1978-79.

iv. Construction: The savings in respect of Health and personal social services were increased from £5 million and £10 million to £10 million and £20 million respectively; and the savings in respect of the Property Services Agency were increased from £20 million and £30 million to £37 million and £60 million respectively.

v. Roads. No change. It was noted that the agreed savings were in respect of Great Britain, and that Scotland and Wales would take their usual proportions of 10 per cent and 5 per cent respectively of the total figure.

vi. Nationalised industries: No change.

vii. Housing: No change.

viii. Community Land: No change.

ix. Health: On prescription charges, it was noted that the Cabinet remained disagreed on whether an increase on the scale proposed should be made. On other National Health Service expenditure, the savings of £10 million in each year were reduced to £5 million in each year (a consequential of the changes made above under "Construction").

Future Procedure

THE PRIME MINISTER said that the Cabinet were still short of the total savings needed. They should meet again at 8.00 pm when they must decide a definitive package for the fiscal adjustment.

The Cabinet -

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

Cabinet Office

8 December 1976

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CM(76) 39th
Conclusions

COPY NO 77

CABINET

CONCLUSIONS of a Meeting of the Cabinet
held in the Prime Minister's Room
House of Commons on

TUESDAY 7 DECEMBER 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 Denis Healey MP
Chancellor of the Exchequer

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

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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

IMF NEGOTIATIONS

IMF
NEGOTIATIONS

Previous
Reference:
CM(76) 38th
Conclusions

The Cabinet resumed their discussion of the negotiations with the International Monetary Fund. Their discussion and the conclusions reached are recorded separately.

Cabinet Office

8 December 1976

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CABINET

LIMITED CIRCULATION ANNEX

CM(76) 39th Conclusions

Tuesday 7 December 1976 at 8.00 pm

IMF NEGOTIATIONS

Previous Reference: CM(76) 38th Conclusions

The Cabinet resumed their discussion of the package to be put to the International Monetary Fund (IMF). They had before them the table annexed to these minutes, indicating ways in which the public expenditure reductions so far agreed by the Cabinet could be increased to raise the gross totals to about £1.2 billion in 1977-78 and £1.7 billion in 1978-79, offset by additional expenditure to assist industry and employment of £135 million in 1977-78 and £95 million in 1978-79.

Financing of Additional Expenditure

In discussion it was argued that it would be wrong to try to finance the additional expenditure on industry and employment by making even greater savings on other public expenditure. The IMF had asked for savings of £1 billion on public expenditure in 1977-78, and the Chancellor of the Exchequer's table indicated how this might be achieved; but there was no reason why, once they had agreed upon that, they should not agree to additional expenditure financed from the proceeds of some increase in indirect taxation. Thus, $2\frac{1}{2}$p on a packet of cigarettes (with corresponding increases on other forms of tobacco), 0.7p per pint on beer, 6p per bottle on wine and 31p per bottle on spirits would, taken together, raise about £200 million; while $3\frac{1}{2}$p on a gallon of petrol would raise £140 million. Such tax increases, presented as a means of enabling the Government to give further assistance to industry and to counteract rising unemployment, would meet the mood of the country. Against this it was argued that the inclusion of a tax element would weaken the credibility of the package which to have the maximum effect upon confidence should consist only of public expenditure changes. An increase in excise duties would not be welcome to the Trades Union Congress (TUC) and would add to the Retail Price Index (RPI). More generally there would be advantage, when it came to negotiating the third pay round, to retain the option of changes in both direct and indirect taxation.

TOP SECRET

THE PRIME MINISTER, summing up this part of the discussion, said that the issue to be settled was a matter of judgment. There was a genuine risk that a package in which some additional expenditure on industry and employment was financed from tax increases might not command the necessary market confidence. On the other hand tax increases were easier to agree upon than further expenditure savings, and a majority in Cabinet were of the view that the attendant risk should be accepted. Any additional expenditure should therefore be met from increases in indirect taxation. The details of this would be a matter for the Chancellor of the Exchequer to consider further.

The Cabinet -

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

Additional Expenditure

In the table he had handed round, the Chancellor of the Exchequer had proposed additional expenditure of £30 million in 1977-78 and £45 million in 1978-79 on assistance to industry, £25 million in 1977-78 only on training (being an addition to the £50 million already in train), and £80 million in 1977-78 and £50 million in 1978-79 on job creation.

In discussion it was pointed out that this made no allowance for additional money for the National Enterprise Board (NEB), the Scottish Development Agency or the Welsh Development Agency, although the Chancellor of the Exchequer himself, in his statement of 22 July last in the House of Commons, had said that the resources to be made available to industry through these channels would be increased significantly. The package would be ill-received if there were nothing for this purpose, and it was suggested that £50 million would be an appropriate figure for 1977-78. Expenditure of this order would be essential to make the package more palatable to the Labour Party, since it would give substance to the claim that the hard decisions on social expenditure had been taken in order to give priority to manufacturing industry. Against this it was argued that the NEB had no great appeal to the average Labour voter, and that if additional expenditure were to be made available it would be better to put more of it into employment-creating measures than into the activities of the NEB or the Agencies. It was noted that the expenditure changes so far provisionally agreed by Cabinet would add about 35,000 to the figure for unemployment at the end of 1977 and about 125,000 to the figure for the end of 1978. It would be important to introduce measures to counteract these effects, since otherwise unemployment was likely to rise by about 10,000 a month in the period

up till March, and thereafter by about 35,000 a month up till the end of 1977. In the memorandum he had circulated (CP(76) 119) the Secretary of State for Employment had proposed the extension of the current measures to counter unemployment until the end of 1977, at a cost of £380 million, and certain new measures, at a cost of £400 million: but in both cases the gross cost would be offset by reduced payments of unemployment benefit and supplementary benefit, and by increased revenue from the tax payments and national insurance contributions of those who would be in work instead of unemployed. It was argued that there was some danger of double counting here; and it was noted that the Department of Employment and the Treasury were not agreed upon the estimates of the net effect of the Secretary of State for Employment's proposals upon the public sector borrowing requirement.

THE PRIME MINISTER, summing up this part of the discussion, said that there was general agreement in Cabinet that room should be found, through increases in indirect taxation, for additional expenditure of £200 million in each of the two years. The question of how this should be allocated between the various forms of assistance to industry and measures to counter unemployment could not be finally settled by Cabinet that evening. The Secretary of State for Education and Science and Paymaster General, the Secretary of State for Industry and the Secretary of State for Employment, with the Chief Secretary, Treasury, should meet under the chairmanship of the Home Secretary the following day and be authorised to settle the allocation. The question should only be brought back to Cabinet if they were unable to do so.

The Cabinet -

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

Nationalised Industries

The Cabinet had at their meeting earlier that day agreed to score savings of £100 million in each year under this head, to be obtained partly through reductions in capital spending and partly through an increase in gas prices. The Chancellor of the Exchequer had annexed to the note which he had handed round to Cabinet a suggested composition for a saving of this order.

In discussion the possibility of an increase in telephone charges was again considered. It was argued that, with the industry making a profit of £400 million, there was no industrial case for such an increase, which in any event the Government had no power to impose;

but it was pointed out that such a price increase was nevertheless less objectionable than other elements in the package. The increase in gas prices would make it possible, were it so desired, to increase electricity prices also; but given the likelihood of an increase in the near future in oil prices this could mean a very adverse effect both on the domestic consumer and on industry. It was noted that the RPI, forecast to be increasing at an annual rate of about 15.8 per cent by the middle of 1977, would be 2-3 per cent higher than that as a result of the provisional decisions already reached, and that further increases in nationalised industry charges could push it up to 20 per cent, at which point the political implications could begin to be extremely difficult.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet confirmed their view that £100 million net should be scored as a saving in each year under this heading. The details could not be settled by Cabinet that evening. There should be an early meeting of a group of Ministers comprising the Secretaries of State for Industry, for Scotland, for Trade, for Prices and Consumer Protection, and for Transport, with the Chief Secretary, Treasury, under the chairmanship of the Secretary of State for Energy, to consider, in the light of the Cabinet discussion, how the reduction of £100 million net should be made up; they were authorised to settle the matter if they could reach agreement, only bringing the question back to Cabinet if they were unable to do so.

The Cabinet -

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

Reductions in Public Expenditure

The Cabinet then discussed those items of public expenditure on which the Chancellor of the Exchequer, in the table he had handed round, had proposed further savings. The results of the ensuing series of brief discussions were as follows:

i. Construction - other environmental services: It was agreed that a saving of £50 million in 1978-79 should be found.

ii. Housing: Savings had previously been agreed for 1977-78 sufficient to reduce the prospective overspend of £220 million to £70 million; but on further consideration it was agreed that another £50 million of savings should be found, which would reduce the overspend to £20 million. These savings would carry through to an additional saving approaching

£100 million in 1978-79. Reductions in the prospective over-spend would fall entirely on the England and Wales programme. The programme for Scotland would bear its usual share of positive savings. It was argued that when Housing Associations obtained funds from the commercial banks for capital expenditure purposes, that spending should not fall within the definition of public expenditure. It was noted that this issue would be among a number of presentational points which would be considered early in 1977.

iii. <u>Prescription charges</u>: It was decided that no increase should be made in prescription charges and that the saving of £40 million in each year which had been provisionally scored should not be confirmed.

iv. <u>Education</u>: It was agreed that further savings of £10 million and £20 million in 1977-78 and 1978-79 respectively should be made from expenditure in England and Wales under this heading. This would make the total savings on education (including school meals) £20 million in 1977-78 and £30 million in 1978-79.

v. <u>Social security and public service pensions</u>: The Cabinet agreed that no savings should be made in social security expenditure, but they were very concerned about the problem of the poverty trap, and were of the view that this would have to be tackled in the context of the discussions with the TUC on round three of the incomes policy, when it would be possible to consider the interlocking effects of changes in earnings, social security benefits and rates of direct and indirect taxation. The statement to be made the following week should indicate that it was the Government's intention to do this. The Cabinet agreed however that as a first step in this direction the uprating of public service pensions should be related to the movement in earnings rather than that of prices: this was expected to produce savings of some £13 million in 1977-78 and £91 million in 1978-79.

vi. <u>Child Tax Allowances - non-resident children</u>: It was agreed that no savings should be made under this heading.

vii. <u>Community Land Act</u>: It was agreed that a saving of £35 million, in place of the previously agreed £50 million, should be made in 1978-79 under this heading.

viii. <u>Export credits</u>: The savings of £100 million in 1977-78 and £200 million in 1978-79 were confirmed; and the Chancellor of the Exchequer and the Secretary of State for Trade were invited to settle bilaterally the question whether any kind of limits should be placed upon the level of sterling financing.

Import Deposits

THE PRIME MINISTER, summing up a brief discussion, said that, while some members of the Cabinet had favoured an import deposit scheme mainly on the ground that it would make the package politically much more acceptable there was general recognition that it would be deflationary in effect and would add to the unemployment inherent in the rest of the package. There was also a danger that the introduction of a scheme of import deposits would put at risk the chance of obtaining a safety net for the sterling balances. On balance the Cabinet agreed that no scheme for import deposits should be introduced.

The Cabinet -

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

Conclusions

THE PRIME MINISTER, summing up the outcome of the present and the two previous Cabinet meetings, said that the Cabinet had reached agreement on the following points:

a. They approved the list of public expenditure reductions set out in the table annexed to these minutes, subject to i. the amendments agreed in the course of the present meeting, and ii. the additional saving of £1 million in 1978-79 in the expenditure of the Foreign and Commonwealth Office which had been agreed at the previous meeting. This led to total savings of £1,019 million in 1977-78 and of £1,578 million in 1978-79.

b. They agreed that British Petroleum (BP) shares in excess of those required to keep the combined Government and Bank of England shareholdings at not less than 51 per cent should be sold; if at all possible the sale should be made from the former Burmah shareholding at present in the hands of the Bank of England; but if this proved impracticable, part of the Government's own shareholding should be sold and replaced by the shares at present held by the Bank of England. The sale of the shares was expected to realise about £½ billion.

c. The Chancellor of the Exchequer was authorised to settle with the IMF on the basis of a reduction in the public sector borrowing requirement in 1977-78 of about £1½ billion, of which £½ billion would come from the sale of BP shares and £1 billion from reductions in public expenditure; and on the basis of a reduction in 1978-79 of £2 billion of which at least £1½ billion would come from public expenditure reductions.

He was also authorised to enter into a contingent arrangement with the Fund whereby, if in early 1978 the economy appeared likely to grow at more than $3\frac{1}{2}$ per cent per annum in 1978-79 there would be a further reduction of £$\frac{1}{2}$-£1 billion in the public sector borrowing requirement in that year over and above what was now being agreed.

d. The Chancellor of the Exchequer would now consider further the content of the Letter of Intent to the IMF, and would consult the Prime Minister on this. The Prime Minister would ensure that any points of difficulty were brought to the attention of the Cabinet.

e. The Chancellor of the Exchequer would consider the way in which, through increases in indirect taxation, he would raise the £200 million needed to offset the additional expenditure which had been agreed.

f. Groups of Ministers under the chairmanship of the Home Secretary and the Secretary of State for Energy, as minuted earlier, would consider respectively the question of the allocation of the additional expenditure and the question of finding savings from the nationalised industries.

At the same time the Chancellor of the Exchequer would press on with the arrangements to try to get a safety net for the sterling balances. This would need to be done very rapidly because there would need to be an announcement in the House of Commons about the package on Wednesday 15 December. The timing of a meeting of the Parliamentary Labour Party to consider the package, and the question whether the Government should put down a Motion for such a meeting seeking the backing of Government Members of Parliament, were matters which would need further thought, and which could be considered again at Cabinet on Thursday 9 December. The package would need to be debated in the House of Commons in the week beginning 20 December, but it should be left open for the present whether this would be a one-day or a two-day debate. He enjoined upon his colleagues once again the paramount need, if the package was to have its maximum impact upon confidence, to maintain total secrecy about its content until the announcement was made.

The Cabinet -

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

Cabinet Office
8 December 1976

SECRET

Public Expenditure Reductions

Programme	£ million 1977-78	£ million 1978-79	Remarks
Defence	100	200	
Overseas aid	50	50	
Food subsidies	160	57	
Construction			
i. Education	22	11	
ii. Water	75	130	
iii. Other environmental services	50	50	The 50 in 1978-79 is extra
iv. Health and personal social services	10	20	
v. Property Services Agency	37	60	
vi. Courts	2¼	-	
Roads	75	50	
Nationalised industries	100	100	Net reduction in financial requirements. Illustrative allocation for 1977-78 attached
Total (carried forward)	681¼	728	

Programme	£ million 1977-78	£ million 1978-79	Remarks
Housing	30	300	100 extra in each year
Community Land Act	35	50	
Health			
i. Prescription charges	40	40	
ii. Other NHS expenditure	5	5	
Civil Service Staffs	30	8	Additional to cuts in Ministry of Defence staffs
Education	30	40	Composition to be proposed by Secretary of State
School meals	10	10	
Regional employment premium	150	170	
Social Security	50	50	Minor savings (<u>or</u> additional savings on Health Service)
CTAs - non-resident children	20	15	
Public service pensions	13	91	Figures subject to check
Export Credit - net reduction	100	200	From renegotiation with banks <u>plus</u> overall limit on Government refinance
Northern Ireland	5	10	
Total before addback	1199¼	1717	

SECRET

Public Expenditure Reductions

Programme	£ million 1977-78	£ million 1978-79	Remarks
Total before addbacks	1,199¼	1,717	
Addbacks:-			
Investment scheme	5	15	
Industry schemes	20	20	
Shipbuilding	5	10	
Training	25		The addback for employment schemes should be controllable and not open-ended
Job creation	80	50	
	135	95	
Total net of addbacks	1,064¼	1,622	

SAVINGS FROM NATIONALISED INDUSTRIES

	1977/78 £m.	Remarks
NCB	10-15	Arbitrary cut
Electricity (E & W)	10-15	Arbitrary cut
NSHEB) SSEB)	6	No Sizewell
BGC	10(a)	(a) Arbitrary cut in investment
	50(b)	(b) 8% price increase, October 1977
BNOC	10-15	Something off wedge
BSC	45	Arbitrary, but looking forward to later years
PO	-	Unless price increase
BAB	-	
BAA	2	As net repayers
BRB	5	Reduction in Government pensions contribution
BTDB	2	Arbitrary
BWB	-	
NFC	5	Arbitrary
NBC	-	
STG	-	
	155-200	
Deduct excess over NIF PSBR forecast produced by Electricity (E & W) Price increases below Price Code limit	100 maximum	
Net saving	55-100	

1978/79: The nationalised industry element in the PSBR forecast is necessarily imprecise, in particular because price assumptions must be uncertain when e.g. future policy on the Price Code remains to be settled. But a net reduction of £100m on the proposed public expenditure figures could be produced by more vigorous pricing policies or further reductions in investment, particularly in steel and electricity.

England, Scotland and Wales shares of GB reductions

1. The reductions can be divided in the proportions 85 (England): 10 (Scotland): 5 (Wales) for -

Construction - Education
Water
Other environmental services
Health and personal social services

Roads

Housing (1978-79 only)

Health - Other NHS expenditure

2. For Health - Prescription charges and for School meals, the savings would be calculated on the basis of uniform increases in charges throughout Great Britain.

3. For Housing in 1977-78, the excess of £219 million arises on England and Wales only and the saving of £150 million should therefore be found in proportion to the excesses in England and Wales. The savings on Community Land Act would be proportionate to the forecast expenditures in England, Scotland and Wales.

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CM(76) 40th
Conclusions

COPY NO 77

CABINET

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

THURSDAY 9 DECEMBER 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 Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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	
Sir John Garlick	(Item 2)
Mr D le B Jones	(Item 1)
Mr W I McIndoe	(Item 3)
Mr M E Quinlan	(Item 2)
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 there was still some uncertainty about the business to be taken in the week before Christmas and the date of rising for the Christmas Recess. It was necessary to take Private Members' Motions and the Consolidated Fund Bill on Monday, 20 December, and the business on 21 December would be the Rate Support Grant (RSG) Orders or the economic debate, and on 22 December the Second Reading of the Water Charges Equalisation Bill or the economic debate or the RSG Orders. He hoped that the House could rise on Thursday, 23 December, taking the Christmas adjournments on that day, but if the Government committed themselves to this now the Opposition would be more likely to press for a two-day economic debate.

In discussion of the business in the week before Christmas, the importance of obtaining Second Reading of the Water Charges Equalisation Bill that week was stressed. The RSG Orders had to be taken before the Recess, and the Opposition had said that, if there were a two-day economic debate, they would expect the Orders to be taken on one of these two days. It was noted however that this course would involve a risk that the Orders would be defeated.

In discussion of the arrangements for announcing the conclusion of the negotiations with the International Monetary Fund (IMF) it was noted that the Chancellor of the Exchequer's statement would be made on Wednesday, 15 December. There was general support for the view that the meeting of the Parliamentary Labour Party (PLP) to discuss the statement should not be held until the evening of Thursday, 16 December and that this meeting should not be asked to pass a formal Motion supporting the Government decisions.

In discussion of the Social Security (Miscellaneous Provisions) Bill, it was noted that there were likely to be three Committee sittings before Christmas, with Clause 4 - on unemployment benefit for occupational pensioners - being reached on 21 December. It seemed inevitable that the Government side of the Committee should contain at least one opponent of this Clause, though it was to be hoped that no out and out Labour opponent of the main provisions of the Bill would be selected.

THE PRIME MINISTER, summing up the discussion, said that it would be the general wish of the House to rise for the Christmas Recess not later than Thursday, 23 December. The proposed business for the week before Christmas would, however, have to be kept flexible for the present, and it was not yet possible to announce the date of rising or to decide whether Second Reading of

the Water Charges Equalisation Bill could be fitted in. The Lord President of the Council would announce that afternoon that the Chancellor of the Exchequer would be making a statement on Wednesday, 15 December, on the outcome of the negotiations with the IMF; if questions were asked about a debate, the answer could be that this was for discussion through the usual channels and there would be no debate next week. The statement would be discussed at a meeting of the PLP on the evening of Thursday, 16 December. In the meantime it was essential to preserve secrecy about the package. In order to offset any market uncertainty due to the fact that we were due to repay the stand-by credit that day it should be made known simply that the Cabinet had agreed that the Chancellor of the Exchequer would make a statement on Wednesday, 15 December. On the Social Security (Miscellaneous Provisions) Bill, there might be difficulty in getting through the most contentious provisions. The Secretary of State for Social Services and the Minister for Social Security had just sent him a minute canvassing possible concessions; but before deciding whether to offer any such concessions it would be necessary to establish, by consultation with the moderate opponents of the contentions provisions, whether these concessions would suffice to get these provisions through. The Home and Social Affairs Committee should give further consideration to this matter and should put forward recommendations, covering both the clause on unemployment benefit for occupational pensioners and the clause withdrawing supplementary benefit from students during short vacations, which the Cabinet would consider the following week.

The Cabinet -

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

SCOTLAND AND WALES BILL: POST-ASSENT REFERENDA

2. The Cabinet considered a memorandum by the Lord President of the Council proposing that during the Second Reading Debate on the Scotland and Wales Bill the Government should announce their intention to hold referenda in Scotland and Wales, following Royal Assent to the Bill (CP(76) 130).

THE LORD PRESIDENT OF THE COUNCIL said that pressure for referenda on the devolution proposals had become very strong. Sixty-four Government supporters had now put their names to a carefully-worded Second Reading amendment in this sense. It was virtually certain that sooner or later the Government would have to concede the principle; the issue could not be avoided. The best time for making the concession would be on Second Reading, in order both to retain the initiative and to maximise the Government's majority, the size of which would have an important psychological effect at later stages in the passage of the Bill. An announcement should make clear that the referenda should be held after Royal Assent, in Scotland and Wales only, and on whether or not the Act's provisions should be implemented. Other aspects need not be settled yet.

In discussion it was argued that the use of referenda in such a domestic matter was gravely objectionable from the constitutional standpoint and should be flatly resisted, and that the case against them was reinforced by the evident difficulty of sustaining the exclusion of English voters. There was however more widespread support for the view that the principle would have to be conceded, having regard both to Parliamentary pressures and to public expectation in Scotland; special public approval of the proposals would also be a valuable reinforcement to the stability of the settlement. The timing of the concession needed measured consideration. While there was a case for using it to maximise the Second Reading majority, it would be important to extract maximum benefit from it, and this might point to seeking to relate it to stages of the Bill's passage where the Government might be more at risk than seemed likely on Second Reading. Careful assessment was needed of the likely reactions and future intentions of Government supporters advocating referenda.

The need was also urged for Ministers to have before them an analysis of the many more detailed issues that would arise. There were, for example, very powerful arguments against posing a question on independence; fully-argued proposals should be presented on both this aspect of referenda and such others as the question of English and Northern Ireland voters, the problem of Shetland, the precise status of the results and the position if different answers were returned for Scotland and Wales.

THE PRIME MINISTER, summing up the discussion, said that there was general recognition that the principle of post-Assent referenda would probably have to be conceded, and that the Government should avoid appearing to be forced into a late and grudging acceptance of it. On current evidence, however, the balance of advantage lay against announcing acceptance during the Second Reading Debate. He therefore proposed that in opening the debate the following Monday he would say that the Government recognised the strength of the arguments in favour of referenda in this case; that they had not so far reached a conclusion about them; that they would listen carefully to what was said during the debate; and that they would thereafter reach a conclusion and take an early opportunity of putting their conclusions to the House. He would circulate to his colleagues, in advance, the draft of a suitable passage. The matter could be further considered by the Cabinet if necessary on 16 December, in the light of the first three days' debate on Second Reading. The Ministerial Committee on Devolution Strategy (the composition of which for this purpose he would review) should consider the detailed aspects of referenda, with a view to Cabinet decisions on them as early as possible in the New Year

The Cabinet -

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

CIVIL SERVICE DISPERSAL

3. The Cabinet considered memoranda by the Secretary of State for Defence (CP(76) 104), the Lord Privy Seal (CP(76) 105) and the Minister for Overseas Development (CP(76) 106) about the Government's programme of dispersal for the Civil Service.

THE SECRETARY OF STATE FOR DEFENCE said that his proposal that the dispersal plan for the Minister of Defence (MOD) should be abandoned was based on practical considerations stemming from the major reductions in MOD staff which had been approved since July 1974. Since the circulation of his memorandum he had had to accept further substantial cuts in public expenditure over the next 2 years, and the costs of dispersal over those years would represent a loss of about 1,500 jobs which would add to public expenditure in unemployment benefit and other ways. About 90 per cent of the MOD were already dispersed and travel costs were a substantial item of expenditure. In 1974, when the dispersal plans had been announced, the then Secretary of State for Defence had reserved his position on the size of the dispersal to each location in the event of the Defence Review having a significant effect on the size and shape of the Ministry. It was now estimated, however, that by 1984, as a result of cuts and reorganisation already decided upon, MOD HQ staff in the London area would number only 13,000 out of the figure of 19,000 in 1974 to which the dispersal figure of 11,000 was primarily related; and this forecast

did not take account of the possible implications of the most recent decisions on public expenditure. The biggest problem, however, was the hostile staff reaction to the dispersal plans. This presented an immediate problem because it affected the whole attitude of the Staff Side to closures of depots and redundancies which were already being brought about and which were being attended by industrial action and threats of industrial action in servicing depots critical to the maintenance of the Armed Forces. He was not seeking to retreat on decisions already taken on staff reductions but merely to have his path eased, by abandonment of the dispersal plans, in carrying them out.

THE MINISTER FOR OVERSEAS DEVELOPMENT said that he believed that the present public expenditure constraints, the narrowing of the difference between rents in London and elsewhere, the projected reductions in Civil Service manpower and the more even spread of unemployment throughout the country all constituted a sufficient change of circumstances since 1974 to justify a serious reappraisal of the Government's dispersal programme as a whole. The Hardman Report had expressed serious reservations about the wisdom, in terms of efficiency, of dispersing any of his own Ministry's (ODM) staff, and these reservations had not been properly considered by the Cabinet at the time. The ODM were committed to dispersing about 600 out of a relatively small HQ staff, and most of these would be concerned with recruiting and administering technical co-operation officers, a duty which would require frequent travel to London. The case for abandoning the dispersal plans for the Directorate of Overseas Surveys (DOS) was even stronger because the Directorate would in any case gradually be run down, with a diminishing benefit to Scotland, while its dispersal would require a costly, purpose-built building which would subsequently be difficult to dispose of. He therefore urged that the whole of the dispersal programme should be re-examined but that, in any case, the plans for ODM dispersal should be abandoned.

THE LORD PRIVY SEAL said that the facts and figures in his memorandum were addressed to the MOD case, but the general arguments in it applied equally to that of the ODM. The Government had repeatedly reaffirmed their commitment to the dispersal programme, which had struck a careful balance between the claims of competing regions. To abandon any part of it would provoke a strong reaction from the regions concerned, which would be seized on politically by the Nationalist Parties in Scotland and Wales and would be more generally seen as a further example of Whitehall getting its own way. It would also make it very difficult to sustain the rest of the programme. He recognised that there was strong Staff Side opposition to the programme but this was not confined to the MOD and ODM; and there was evidence that some unions, which had strong regional representation, would actively resist any proposal to abandon the programme.

In discussion, it was generally recognised that to make exceptions for the MOD and ODM would place in jeopardy the whole of the Government's dispersal programme. It was argued, however, that there was a strong case for reviewing the scale and timing of the programme or, at the least, of giving more thought to the practicalities of securing its implementation. The timing would in any case be likely to be affected by the proposed moratorium on the Property Services Agency construction work; and both the implementation and the accepted benefits to the regions would be seriously prejudiced if dispersal could not be achieved without staff consent. In the case of the MOD, the planned reductions in staff numbers, which had not been foreseen in 1974, presented a real difficulty in finding jobs to disperse without denuding the Whitehall headquarters. Against this, it was argued that while it might be right to consider marginal adjustments in the programme, though even this would hold out the risk of escalating demands from Staff Sides, it would be wholly wrong to depart from the Government's basic plan. This was carefully balanced as between regions; and the MOD element in it amounted to as much as one-third. The MOD had never been reconciled to dispersal to Scotland and Wales and would continue to take every opportunity to resist it, but they were already widely dispersed in the South. The operative date for the dispersal to Glasgow was 1984, and to abandon this project, particularly so far ahead, would provoke a disastrous reaction in Scotland. Moreover, any departure from the Government's basic programme would affect the attitude of staff to those dispersal plans which their representatives had largely accepted and which were going ahead.

THE PRIME MINISTER, summing up the discussion, said that, while recognising the difficulties which some Ministers faced, the Cabinet did not favour the suggestion that there should be a general review of the dispersal programme, to which the Government were firmly committed, or that there should be any basic departure from it in respect of the MOD and ODM. The Secretary of State for Defence and the Lord Privy Seal should, however, consider whether any adjustment was required of the MOD dispersal figures in the light of the projected reductions in MOD staff; and if adjustments appeared to be required, the Lord Privy Seal should consider, in consultation with other Ministers concerned, how any consequential shortfall in the Government's overall target of dispersal might be made up by other parts of the Civil Service, whose overall strength had increased since 1974. The Treasury's position was that the costs of dispersal would be absorbed by the Departments concerned. The Cabinet had not reached any conclusion on the special case presented by the projected rundown of the ODS, and this should be further considered by the Lord Privy Seal and the Minister for Overseas Development. The Lord Privy Seal and the Ministers concerned should report their conclusions to the Cabinet in due course.

The Cabinet -

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

Cabinet Office

9 December 1976

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CM(76) 41st
Conclusions

COPY NO 77

CABINET

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

TUESDAY 14 DECEMBER 1976

at 11.30 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 Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

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

The Rt Hon Stanley Orme MP
Minister for Social Security

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

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

SUBJECT

IMF NEGOTIATIONS

Previous Reference: CM(76) 39th Conclusions

The Cabinet had before them a draft of a statement which the Chancellor of the Exchequer proposed to make in the House of Commons the following day about the outcome of the negotiations with the International Monetary Fund (IMF) on a further drawing by the United Kingdom (CP(76) 131). There was also made available to them for the meeting, and subsequently withdrawn, a copy of the proposed Letter of Intent which the Chancellor of the Exchequer would sign the following day, setting out the economic policies which the Government would pursue over the next two years.

Letter of Intent

THE CHANCELLOR OF THE EXCHEQUER said that the draft of the Letter of Intent followed a similar pattern to that used in 1969. It contained some standard undertakings, eg in relation to generalised, as distinct from temporary selective, import restrictions; and included an undertaking not to impose restrictions on international payments, eg currency for holiday purposes. The draft had certain special features, in that it laid down performance criteria related to the Public Sector Borrowing Requirement (PSBR) and Domestic Credit Expansion (DCE), but not specifically to the money supply. If the Government wished to depart from any of the undertakings given in the Letter of Intent, it would be necessary to consult with the IMF and to get their agreement. Similarly, if in the event the performance criteria were not being met, it would be necessary to consult the IMF and - unless good reason could be shown for taking no action - agree with them what needed to be done to ensure that the criteria were met. If at any stage the Government were unable to reach agreement with the Fund, and decided to go their own way, then they could do so but would forgo any undrawn tranches of the loan. Some tolerance, although not as much as he would have liked, had been built into the figures for the performance criteria. He drew attention to the contingent arrangement in paragraphs 16 and 19 of the draft letter whereby some adjustment of the performance targets might be made, depending upon the forecast rate of economic growth. He had reported these contingent undertakings to Cabinet on 6 December.

The Chancellor of the Exchequer went on to explain that the talks with the other countries concerned about a safety net for the sterling balances had not reached as conclusive a point as had earlier been hoped, mainly because of the difficulties being made by the United States Treasury and Federal Reserve Bank who preferred a much more ambitious arrangement to fund the balances over a period. There was a good case for such a scheme, but it involved a number of very difficult questions, including: the kind of undertaking needed to stop the balances from building up again; how, in that situation, the United Kingdom could rebuild her reserves; and what exchange rate

policy the United Kingdom should follow. Such a scheme would also require discussion with the sterling holders themselves, and all of this would take time. It was now clear that final agreement on the less ambitious scheme for a safety net would not be reached in time for him to announce it the following day, and a less forthcoming form of words had therefore been agreed with the other countries concerned. This would refer to the general desire on the part of those concerned to achieve a satisfactory arrangement for the sterling balances, adding the belief that it would be possible to reach an agreement before long. The United States Government had given an assurance that they would make supporting statements to the same effect, but they were not prepared at present to go any further.

In discussion the following points were made -

a. The absence of a firm arrangement covering the sterling balances was a great disappointment, and meant that the position was by no means satisfactory. The difficulty clearly stemmed from the reluctance of the United States Treasury and Federal Reserve Bank. Although the Germans had been co-operative throughout, they had always made it clear that they could only participate in a safety net arrangement if the Americans did the same. It was accepted, regretfully, that there was no help for it but to use the form of words which had been agreed with the other countries concerned.

b. The letter restricted the freedom of the Government to introduce import controls if, for example, the level of unemployment rose. Nevertheless, it did contain - in paragraphs 6, 7, 15 and 16 - provisions which left the Government some room for reviewing the situation in the light of changing circumstances. Moreover it would always be open to the Government if the country was in balance of payments surplus in 1978 to take its own decisions and forgo the remaining instalment of the loan. It was suggested that there was some ambiguity about the precise meaning of paragraph 16, particularly the penultimate sentence, which could be read to mean that fiscal action would be taken to prevent economic growth from rising above $3\frac{1}{2}$ per cent a year. An amendment, to be put to the IMF, was agreed to make it clear that such action would be intended to allow such growth to take place rather than to restrict it.

c. In paragraph 12 of the draft letter there were references to the present burden of direct taxation which was "excessive especially at the lower and higher earnings

levels" and to the Chancellor of the Exchequer's personal belief that the present levels of direct taxation were damaging. It was argued that the implication that the Government was contemplating a reduction in the taxation on higher earnings was unnecessary, had not been discussed in Cabinet, would have an adverse effect upon the forthcoming negotiations for round 3 of pay policy and should be omitted. Against this it was argued that the expression of such an intention would be helpful to confidence and would provide an opening for reflationary action if, eg, the new United States Administration adopted an expansionary economic policy. After further discussion it was agreed that the reference to the Chancellor's wish to reduce the burden of direct taxation should stand and also the final sentence about the disincentive effect of the present levels: but that the IMF should be asked to accept the omission of the reference to taxation being excessive at the lower and higher earnings levels.

d. Paragraph 24 of the letter raised political difficulties but was not open to amendment. It embodied standard conditions for IMF loans, and the Government were in fact already bound by it as a result of the conditions entered into on the occasion of their last drawing.

e. The reference in paragraph 4 to average earnings rising in the 12 months ending July 1977 by "not much more than half of the amount of increase in the preceding 12 months" implied too high a figure. The Chancellor of the Exchequer undertook to agree a revised form of words with the Secretary of State for Employment.

THE PRIME MINISTER, summing up this part of the discussion, said that on the assumption that the International Monetary Fund would be prepared to accept the amendments which had been agreed in the course of discussion, the Cabinet authorised the Chancellor of the Exchequer to sign a letter in the terms of the draft before them in return for a credit drawing of SDR 3,360 million.

The Cabinet -

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

Draft Statement

THE CHANCELLOR OF THE EXCHEQUER said that, because of the pressure of work involved, there were a number of errors in the draft statement circulated under cover of CP(76) 131. He was in any case, following some discussion with the Prime Minister, proposing to shorten the text by about one-third, cutting out most of the first five pages, reducing the section on the sale of British Petroleum (BP) shares, and removing some of the repetition about DCE and the detail on the control of credit. Where it was possible to do so he would be adding figures of savings in the appropriate paragraphs. The reference in paragraph 21 to a further statement by the Secretary of State for Defence would be omitted; and in paragraph 48 he would be using the words about a safety net which he had indicated in their discussion of the Letter of Intent. He indicated that he now hoped to arrange with the IMF for a first payment of \$1-\$1½ billion in January.

Public Service Pensions

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE said that she had earlier that morning chaired a meeting of Ministers to consider what should be said in the statement about the uprating of public service pensions. The meeting had reached the conclusion that there were very formidable difficulties indeed about legislating to cover the whole of the public sector, since in some of the nationalised industries there were schemes where the duties of the trustees would need to be modified. Such legislation would be extremely complex. It would be necessary to consult the unions before any details of restrictions in the increases in public service pensions could be settled, and to consult both sides of industry before anything could be said about what might be done in the nationalised industries and in the private sector. Her meeting had thus considerable doubts about the wisdom of proceeding with the proposed savings in public service pensions, although they had agreed a form of words which might be used if Cabinet chose to do so.

In discussion there was general agreement that to extend the restriction on increases in pensions from the public service to the nationalised industries would be politically extremely difficult, while to restrict it to public service pensions only would provoke strong opposition from the public service unions. It was true that it might be possible to legislate to break the mandatory link with increases in prices, and for the Government to indicate how they proposed to exercise the new discretion in respect of their own direct employees, leaving other public sector employers to act as they saw fit; but it was felt that this would in fact be more difficult than finding alternative savings sufficient to ensure that the total savings were safely above the figures of £1 billion and £1½ billion

for 1977-78 and 1978-79 respectively. One possibility would be to increase the price of gas, not by the 8-9 per cent which had already been planned, but by 10 per cent, which would provide an additional £10 million of savings; but it was objected to this that it would be tantamount to imposing a tax upon a necessity, which would have to be paid by all consumers including the poorest, which would be a negation of the Government's social priorities. Other possibilities in the field of nationalised industries included a saving of £10 million in 1977-78 on the financing requirement of British Airways and a saving of £10 million in 1978-79 achieved by charging for airport security. The possibility of some saving from Post Office telecommunications was also considered and it was observed that an increase of 1 per cent in telephone charges could yield £20 million in a full year. This would, however, mean overruling the Price Code, would mean that the industry was over 100 per cent self-financing, and would provcke pressure from the equipment manufacturers to reduce charges and thus increase the demand for their equipment.

THE PRIME MINISTER, summing up this part of the discussion, said that it was generally agreed that the time was not yet ripe to announce any change in the arrangements for the uprating of public service pensions: the possibility of action in this field could be considered further in the context of the proposed discussions with the Trades Union Congress and other interested bodies concerning the inter-relationships between changes in earnings, Social Security benefits, occupational pensions, and rates of taxation. The Cabinet therefore agreed that no savings should be scored on this account in the present package. In order to ensure that the total savings were sufficient, the Cabinet agreed that, while it might be unnecessary to announce all the details in the near future, a saving of £10 million in 1977-78 should be made in the financing requirement of British Airways; that a saving of £10 million should be made in 1978-79 by charging for airport security; and that a saving of £20 million in 1978-79 should be made from the financing requirement of the Post Office, possibly by an increase in telephone charges, although precisely how it should be achieved would be a matter for the Secretary of State for Industry to consider further. This would mean that the total savings would be shown at £1,016 million for 1977-78 and £1,513 million for 1978-79.

The Cabinet -

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

Defence

THE PRIME MINISTER reported that he had met the Chiefs of Staff at their request the previous week and they had read to him a formal statement expressing their concern at the proposed defence cuts and their fear that the cuts would make it impossible for them to discharge their responsibilities. He had told the Chiefs of Staff that he would report their concern to the Cabinet, though he had indicated that he thought there was little likelihood of any change being made. He had undertaken to consider very carefully their views on how the cut of £200 million in 1978-79 would be made. The Secretary of State for Defence should now inform the North Atlantic Treaty Organisation of the proposed defence savings and the further cut of £30 million in 1978-79 to which the Cabinet had agreed in October.

The Cabinet -

3. Took note of the Prime Minister's statement on this topic.

THE PRIME MINISTER, summing up the discussion on the draft statement, said that, subject to the points which had been made in discussion, and to the shortening which the Chancellor of the Exchequer would undertake, the Cabinet were content with the substance of the proposed statement. Any drafting points which individual Ministers wished to make should be in the hands of the Chancellor of the Exchequer's office by 5.00 pm that afternoon. It was left to the discretion of individual Ministers to inform such bodies as nationalised industries and local authorities of the changes which would affect them either shortly before or immediately after the statement was made the following afternoon. The Cabinet noted that both the Letter of Intent and the economic forecast required by the Bray amendment to the Industry Act 1975 would be made available in the Vote Office the following afternoon.

The Cabinet -

4. Took note with approval of the Prime Minister's summing up of their discussion and invited the Chancellor of the Exchequer to be guided accordingly.

Cabinet Office

15 December 1976

CM(76)42nd Conclusions

COPY NO. 77

CABINET

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

THURSDAY 16 DECEMBER 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 Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

The Rt Hon Shirley Williams MP
Secretary of State for Education and Science 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 Northern Ireland

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 Mulley MP
Secretary of State for Defence

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon Stanley Orme MP
Minister for Social Security

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

The Rt Hon Reginald Prentice MP
Minister for Overseas Development

THE FOLLOWING WERE ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury
(Items 5 - 7)

SECRETARIAT

Sir John Hunt	
Sir John Garlick	(Items 3 and 4)
Mr W I McIndoe	(Items 1 and 5)
Mr D le B Jones	(Items 6 and 7)
Sir Clive Rose	(Item 2)
Mr J A Marshall	(Item 6)
Mr M E Quinlan	(Items 3 and 4)
Mr A D Gordon-Brown	(Item 1)
Mr H J Blanks	(Item 7)

CONTENTS

6. PARLIAMENTARY AFFAIRS

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

FOREIGN AFFAIRS

Falkland Islands

Previous Reference: CC(76) 11th Conclusions Minute 3

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that in March the Cabinet had authorised further discussions with the Argentines. Since then, two rounds of talks had been held and Lord Shackleton's survey of the Falkland Islands had been published. The Argentines wanted a third round and we could no longer postpone a decision on this. The Defence and Oversea Policy Committee (DOP) had considered three options. The first was that we should state publicly that we intended to embark on negotiations with the Argentines about our interests in the South West Atlantic, including future relations between the Falkland Islands and Argentina This would clearly be seen as involving discussion of sovereignty and could result in a political storm. The second option was to break off the dialogue with the Argentines. This would be very damaging to our political and economic interests and was therefore unacceptable. The middle option, which DOP had endorsed, was that he should make a statement in the House of Commons soon after the Recess to the effect that Her Majesty's Government were prepared to commission a number of feasibility studies of the recommendations in the Shackleton Report, but that this should make it clear that the financing of their implementation could only be done on the basis of interdependence between the Falkland Islands and Argentina. Following this statement he proposed to send a Minister to the area, probably in March, to consult with both the Islanders and the Argentines in order to see whether there was a possibility of joint talks on this basis later in the year.

Rhodesia

Previous Reference: CM(76) 33rd Conclusions, Minute 1

THE FOREIGN AND COMMONWEALTH SECRETARY said that, as he had announced in the House of Commons on 14 December, the Geneva conference had been adjourned until 17 January. Mr Ivor Richard would leave shortly after Christmas for visits to the African capitals and Salisbury. Two factors had emerged since the Conference had begun which had blocked progress. The first was that there was clearly no chance of agreement on the basis of Mr Smith's five points. The second was that, contrary to the expectations of the Blacks, Mr Smith remained firmly in power in Rhodesia, This had produced a deadlock in Geneva. With the object of breaking it, we were now working on new proposals, which would have to depart from the five points. But they would remain within the limits of what the Cabinet had agreed. If they were tabled in Geneva, there would be a risk of their being rejected outright and for this reason he had decided that it would be better to adjourn the Conference so as to allow time for consultations on the

new proposals with the delegations and the front line Presidents. It was encouraging that all the delegations had expressed their firm intention of returning to the Conference in January. He thought it would be possible to produce alternative proposals which would command the assent, even if reluctantly, of the Nationalists and he would hope, with American help, to get the South Africans to enforce their acceptance by Mr Smith. Dr Kissinger had told him the previous week that he had no intention of taking any further initiative but would still give any support for our efforts that he was asked for. Two American officials were in London this week to discuss our new proposals and, in his view, it would only confuse the situation if the United States Administration were to intervene actively in the negotiations at this stage. Such criticism of Mr Richard as had appeared in Press reports was wholly unjustified: he had done a good job and the Foreign and Commonwealth Secretary had been glad to pay tribute to this in the House on 14 December.

Meeting of Council of Ministers (Foreign Affairs)

THE FOREIGN AND COMMONWEALTH SECRETARY said he had some good news to report. It was almost certain that by 1 April 1977 all unauthorised Russian and East European trawlers would be out of British waters. This was because the Russians had now declared their intention of enforcing a 200-mile fishery limit of their own. This meant that the difficulties we had foreseen over the enforcement of our fishery limits, especially against Soviet trawlers, should be much less substantial than we had feared.

Contacts with the New United States Administration

THE FOREIGN AND COMMONWEALTH SECRETARY said that he was aware that a number of his colleagues would wish to make early contacts with the new United States Administration. He was anxious to ensure that these contacts were properly co-ordinated. This was particularly important before a decision had been taken on when the Prime Minister should visit Mr Carter. He hoped there would be no rush to Washington and that his colleagues would keep him closely in touch with their intentions and in particular observe the procedures set out in paragraph 43 of C(PR)(76) 1.

The Cabinet -

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

48-HOUR RULE

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

3. THE PRIME MINISTER said that during the closing stages of the negotiations with the International Monetary Fund and in preparation for the Chancellor of the Exchequer's statement a number of papers had necessarily to be circulated to the Cabinet at very short notice. A fast moving Parliamentary situation had similarly necessitated the circulation at short notice of some of the papers which they would be considering during the present meeting. He regretted the need for this and wished to emphasise to his colleagues the exceptional nature of the dispensation. The Cabinet could not work effectively if they had regularly to consider papers at such short notice, and Departments should observe carefully the guidance set out in paragraph 9 of C(PR)(76) 1 regarding the timely circulation of memoranda.

The Cabinet -

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

DEVOLUTION TO SCOTLAND AND WALES: POST-ASSENT REFERENDA

Previous Reference: CM(76) 40th Conclusions, Minute 2

4. The Cabinet considered a memorandum by the Lord President of the Council on referenda about devolution to Scotland and Wales (CP(76) 134). A Note by the Secretary of the Cabinet covering an analysis by the Constitution Unit of the characteristics and implications of such referenda (CP(76) 135) was relevant to the discussion.

THE LORD PRESIDENT OF THE COUNCIL said that the movement of Parliamentary opinion on referenda during the Second Reading Debate on the Scotland and Wales Bill compelled him to ask the Cabinet to reconsider the matter at short notice. A pro-referendum Motion in the name of Mr Leo Abse MP had attracted over a hundred and fifty signatures. It now seemed that the Speaker would not call the Motion, but pressure of expectation centred upon it had built up greatly, and the size of the Government's majority on Second Reading would be seriously imperilled if the Government made no new response to this pressure. It seemed in practical terms inevitable that referenda would have to be conceded at some stage; the balance of advantage pointed to doing so now.

In discussion there was general acceptance of the Lord President's appraisal. Although there were some objections of principle to holding referenda, nothing that the Government had said earlier presented any major reason against adopting referenda now in relation to a constitutional matter of such a special character as devolution. An announcement that the Government accepted the principle of referenda on devolution should not pre-empt decisions on detailed aspects, though it was recognised that there were very cogent arguments against extending the referenda to voters in England and Northern Ireland. At the same time, it was noted that in this, as in other matters arising on the Scotland and Wales Bill, the Government might not find it easy to get their way in Parliament. It was suggested, in particular, that there might well be pressure both for some form of proportional representation for the Assemblies and for a review of the level of representation at Westminster, following devolution.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Government's acceptance of the principle of referenda on devolution should be announced by the Minister of State, Privy Council Office, in opening the final day's Debate that afternoon on the Second Reading of the Bill. The terms of the statement should follow those proposed in CP(76) 134, as slightly amended in accordance with the Cabinet's discussion. He would himself seek during Question Time to give the House warning of the impending announcement. The outstanding detailed aspects of referenda should be brought before the Ministerial Committee on Devolution Strategy by the Lord President, with a view to Cabinet decisions after the Christmas Recess.

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 proceed accordingly.

SOCIAL SECURITY (MISCELLANEOUS PROVISIONS) BILL

Previous Reference: CM(76) 40th Conclusions, Minute 1

5. The Cabinet considered a memorandum by the Secretary of State for the Home Department (CP(76) 136) reporting the conclusions of the Home and Social Affairs (HS) Committee discussion on the handling of the Committee Stage of the Social Security (Miscellaneous Provisions) Bill.

THE HOME SECRETARY said that the HS Committee's discussion of this problem, which had been remitted to them by the Cabinet the previous week, had been severely handicapped by the absence of many of the senior Ministers who were members of the Committee and by the absence of any Commons Whip. In addition the Secretary of State for Social Services and the Minister for Social Security had not been able, by that stage, to carry very far their consultations with interested trade union representatives and backbenchers. The Committee had therefore been unable to form a judgment on whether the concessions under consideration would enable the Government to carry Clause 4 which dealt with the restriction of unemployment benefit for occupational pensioners. The Committee's conclusion, however, was that the Secretary of State for Social Services and the Minister for Social Security should be given discretion to raise from £25 to £30 the weekly level of occupational pensions above which unemployment benefit began to be reduced; and to offer, but only as a last resort in the Committee Stage itself, the concession of making the provision temporary. The Committee would consider Clause 13, which dealt with student access to supplementary benefit, at an early meeting after the Recess when interdepartmental discussions about possible concessions would have been completed.

THE SECRETARY OF STATE FOR SOCIAL SERVICES said that he had met representatives of the Post Office Engineering Union the previous afternoon. They remained totally opposed to the principle of the provision to restrict unemployment benefit and would still oppose it if the weekly limit were raised to £30 and the provision made temporary. But they would be less critical of it if the Government made both these concessions. He would be seeing the Trades Union Congress (TUC) on Monday to discuss their attitude to the provision and the Minister of Social Security would be talking to Mr George Cunningham MP, who was a member of the Standing Committee, to ascertain his reactions to the concessions which might be offered. The Confederation of British Industry were totally opposed to the provision but had recently indicated that they would not wish to send a deputation to discuss it.

In discussion, it was suggested that the Government should not rule out the possibility of raising the weekly limit to £35, instead of £30, since this would still secure worthwhile savings of £9 million in a full year. Doubt was expressed, however, whether a limit of £35 would be any more successful in overcoming objections. Preliminary soundings of Mr Cunningham had indicated that he

himself might be more attracted by an amendment to make the provision temporary since it could then be represented, without prejudice to the principle, as a measure of economic stringency in the present difficult situation. The point was made that a temporary provision was otherwise unattractive; and the inequity, at least for those affected by it, might appear greater.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the conclusions of HS Committee set out in paragraph 5 of CP(76) 136, except that the Secretary of State for Social Services and the Minister for Social Security had discretion also to offer a weekly limit of £35 if that was likely to enable the provision to be carried. The Cabinet noted that the Secretary of State for Social Services would have considerable difficulty in finding alternative ways of securing the savings to which he was committed by the Cabinet's public expenditure decisions in July. He should therefore do what he could to secure the passage of the Clause in a form which achieved the maximum savings. Any proposals for concessions on Clause 13, relating to student access to supplementary benefit, would be considered by HS Committee which was free to reach a decision without reference to the Cabinet. The Secretary of State for Employment, in addition to the other Ministers directly concerned, would wish to be consulted about the preparation of any paper. It was important that senior Ministers should, whenever possible, attend Cabinet Committees of which they were members; and he would arrange for them to be reminded of this obligation.

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 and the Minister for Social Security to be guided accordingly.

MARATHON (UK) LIMITED

6. The Cabinet had before them a note by the Secretary of State for Scotland (CP(76) 132) about possible assistance for Marathon (UK) Limited.

THE SECRETARY OF STATE FOR SCOTLAND said that Marathon(UK) Limited were just completing their last order, a jack-up rig for Abu Dhabi, and had no prospect of immediate further work. The company had suspended the 1,400 employees but if further work was not obtained these suspensions would soon have to be turned into redundancies. There was the possibility of further orders in 1977 both from Abu Dhabi and from Petro Baltic; and he proposed that the Government should take some action to bridge the gap between the order now being completed and the

placing of further firm orders. Marathon was the only company in the United Kingdom with facilities to construct oil exploration rigs. The yard had a good record both on profitability and productivity with good quality management. It would be a tragedy to allow the facilities to disappear when there was a fair chance of further orders to come. The company's unique position meant that any help given to it could not easily be quoted as a precedent for similar help to the shipbuilding industry generally. Marathon had been excluded from nationalisation as a result of undertaking's given when the company was set up by both the Labour Party in opposition and the trade unions. He proposed that the assistance should take the form of arranging for the British National Oil Corporation (BNOC) to place an order for a rig. The financing of about £13 million could be arranged under the Industry Act 1972 partly in the form of arrangements for commercial credit at concessionary interest rates and partly in the form of loan assistance. Not only would BNOC have need of a rig at some later stage; their placing the order would emphasise that this was something different from assistance for a shipbuilding firm. It would be a condition of such assistance that the labour force should be run down from the present 1,400 to about 800; and the trade unions had indicated their willingness to accept this. If no help were given, the firm would collapse and there would be an explosive industrial situation.

In discussion it was argued that, although the profitability and the productivity of Marathon had improved, they were still not impressive. The firm had already been supported twice by the Government; the parent company in the United States was itself in considerable difficulty; and there was world over-capacity for the manufacture of drilling rigs. The BNOC had no immediate use for a rig, and they might well need a positive direction before they would place an order. The proposal which had been put forward amounted to building speculatively at a time when sale prospects were poor; and in spite of what had been said, it would be quoted as a precedent for other shipbuilding companies, especially on the Clyde. The proposed assistance worked out at £16,000 a job (which would only continue for nine months if new orders were not obtained) which was over twice what the Government normally regarded as the limit for assistance under Section 7 of the Industry Act. The application had not been processed by the Industrial Development Advisory Board (IDAB) and the Cabinet had no independent view of the company's prospects before them. The proposal should therefore be turned down.

Against this it was argued that, if the preservation of the facilities for constructing exploration rigs were deemed desirable on grounds of energy policy, then the proposed assistance would be justified. A report by the Offshore Supplies Office indicated that the market for rigs might well pick up in the next 12 months, and this was the more credible given the likelihood of an early rise in the price of oil. The decision was not, however, without difficulties, and Cabinet were warned that a further request for assistance, from Scott-Lithgow, for the speculative building of a drill ship, would be coming forward shortly. BNOC had no immediate need for a rig and would normally have met their need at a later stage by leasing. Nevertheless, on grounds of industrial strategy, and in spite of the element of risk involved, the proposal should be agreed. If this were done it would be necessary to seek approval from the European Commission in Brussels.

THE PRIME MINISTER, summing up the discussion, said that the general feeling in Cabinet was that they needed more information in order to come to a view on this proposal which was however favoured by a number of members. Because of the urgency, the matter had not been put to IDAB or to the Scottish Industrial Development Advisory Board (SIDAB), with the result that Cabinet did not have before them an independent assessment of the merits of the proposal or of the future prospects of the firm. The matter should therefore be referred without delay to IDAB (or its Scottish counterpart if that were more appropriate) with a view to further consideration by the Ministerial Committee on Economic and Industrial Policy at their meeting on 21 December and if necessary by the Cabinet later in the week. In the meantime, as the Polish Prime Minister was visiting London, he would take the opportunity to have a word with him about the prospective order from Petro Baltic. He informed the Cabinet that, from talks he had already had with the Polish Prime Minister, it was clear that Poland was very keen on a joint shipbuilding venture, and that there was every prospect of orders from Poland totalling 300,000 tons for the United Kingdom shipbuilding industry. Talks were now proceeding between Polish representatives and Admiral Sir Anthony Griffin, the Chairman of the Organising Committee for British Shipbuilders. The Polish authorities wished to do business with a British Government undertaking; in view of the delay in shipbuilding nationalisation he had asked the Ministers concerned to explore the possibilities of setting up a shipbuilding subsidiary of the National Enterprise Board or some other form of consortium. He had every reason to hope that, before his departure, the Polish Prime Minister would agree to a statement expressing the intention to go ahead with these orders, which would give great encouragement to the United Kingdom shipbuilding industry. In addition, agreement had already been reached for United Kingdom contractors to build a hotel at the Warsaw Air Terminal worth some £75 million.

The Cabinet -

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

2. Invited the Secretary of State for Scotland to arrange for the proposal to assist Marathon (UK) Limited to be put to the Industrial Development Advisory Board (or its Scottish counterpart) for urgent advice; and to report the outcome to the Ministerial Committee on Economic and Industrial Policy and if necessary the Cabinet the following week.

WINDSCALE: NUCLEAR WASTE PROPOSALS

7. The Cabinet considered a memorandum (CP(76) 133) by the Secretary of State for the Environment about the procedure for handling proposals for new nuclear reprocessing facilities at Windscale.

THE SECRETARY OF STATE FOR THE ENVIRONMENT said that British Nuclear Fuels Limited (BNFL) had applied for planning permission to construct new facilities at Windscale for the reprocessing of irradiated fuel from nuclear reactors. The application comprised three projects:-

i. Improvements to the existing plant for reprocessing fuel from Magnox reactors.

ii. The development of a pilot plant for vitrifying long-lived radioactive waste; and

iii. New facilities for reprocessing uranium oxide fuels from the advanced gas-cooled reactors and for customers overseas, notably Japan.

Cumbria County Council who had done their work in a very responsible way, had written to him that they were "minded to approve the application" but had pointed out that they could not accept responsibility for expressing their satisfaction with arrangements for the safe transport of the fuel, the risk of contamination or the long-term build-up of radioactivity in the environment resulting from the projects. The Ministerial Committee on Energy had considered on 24 November whether he should call in the application. They had been content that the first two of the three projects should go ahead, but opinions had been divided on the third - the plant for handling oxide fuel. The planning laws covered a very wide range of activity from modest changes to a house to the siting of a new airport, or a large chemical plant such as Flixborough. He believed that if the Government refrained from exercising their powers in the present

instance, and exposing the issues to public scrutiny and the opportunity for cross-examination provided by a planning inquiry, it would be unhelpful to the nuclear industry and the Government would be accused of having disregarded environmental considerations in order not to lose an important contract from Japan. There were several important aspects of the issue which had been outside the competence of the local planning committee. The building of a plant for oxide fuel would increase the level of radioactive discharges into the Irish Sea fourfold. High radioactive wastes could not be disposed of in this way and would have to be stored since they would remain dangerous for hundreds or thousands of years. The recent leak from such storage facilities at Windscale, although it had been of a minor nature, added to anxiety on this score. No country in the Western world had yet successfully operated a commercial oxide plant. The United States had constructed three, but had closed them and imposed a three-year moratorium on the reprocessing of oxide fuel. The Japanese had a small plant which public opposition prevented them from using. Only the French were going ahead, but their plant was still under construction. When Britain had carried out reprocessing of oxide fuel on an experimental scale there had been a minor accident. There were also related problems concerning security during the transport of materials to and from the plant for processing, and the regime for supervising the return to overseas customers of the plutonium recovered during reprocessing. They were all serious and relevant questions which neither he nor the County Council could answer. He felt therefore that the Government should not allow the project to proceed until the consequences, not only in the present but in the future had been thoroughly explored and exposed to public debate. He could not call in only part of the planning application, and he therefore suggested that BNFL should be invited to resubmit their applications for the 3 projects separately. The first two could go ahead, and the third be called in for reference to an inquiry. This could take several forms. A planning inquiry commission, provided for in the planning acts, had never been used, but it seemed likely that it would take 12-18 months to carry out its work. For this reason he did not recommend it. The alternatives were a non-statutory inquiry - a panel of "wise men" or a normal public planning inquiry. The former might also take quite a long time and if it did not reach a firm conclusion might still have to be followed by a further planning inquiry. A public planning inquiry had been the procedure used in the case of Flixborough. Despite the complex and difficult issues, the inquiry had produced conclusions in 5 months.

THE SECRETARY OF STATE FOR ENERGY said that the Ministerial Committee on Energy had approved the oxide fuel reprocessing project in February 1976, after there had been a good deal of public discussion of the issues. However there was bound to be a need for considerable expansion in the nuclear industry in the future, and it would be difficult to make progress without public

confidence, not merely in the United Kingdom but world-wide. He had received many representations from countries who were concerned about the problems which had been mentioned. The United States would like a general moratorium, and the French had said that countries engaging in reprocessing would have to be totally open about it. His own confidence had been shaken recently by BNFL's delay in informing him about the leak at Windscale, though they had had an opportunity of mentioning it when he had seen them just before the ENM meeting. He had been told the previous evening that tritium had been found on the beach at Windscale. He agreed that the Magnox and vitrification plants should be allowed to proceed, but felt that the oxide fuel facilities should be re-examined. The Japanese who were sensitive about nuclear matters would understand our reasons for caution.

In discussion it was argued that although a great deal of emotion had been stirred up on this issue by The Guardian and by environmental pressure groups, the National Radiological Protection Board had advised the County Council that they were quite content with the scheme. Although there had been leaks of radioactivity from time to time at Windscale, they had all been of a very minor nature and the latest one had a negligible effect on health. Delay could be a tragedy, and might be interpreted as a contradiction of the announced policy of exploiting the opportunities offered by advanced technology. Throughout its construction the plant would have to meet the requirements of the Nuclear Installations Inspectorate. Important and responsible trade unions were opposed to calling in the planning application. Reprocessing of Magnox fuel was of great importance to the Ministry of Defence, who bartered the reclaimed plutonium in exchange for tritium from the United States. If Britain did not meet its obligation, Anglo-United States nuclear arrangements might be called in question by the new United States Administration. Provided the Magnox improvements could go ahead there would be no problem, but to hold a public inquiry on the oxide plant might reopen debate on the development at Chapelcross to produce tritium, which had already been approved and was under construction. Under the Nuclear Non-Proliferation Treaty the nuclear weapon states would have to provide reprocessing facilities for others if they wanted to limit the spread of the technology. Against this it was strongly argued that there had already been several disturbing accidents in experimental oxide fuel plants in the United States, and it would be irresponsible not to call in the application and hold some form of inquiry. The issues raised by the Secretary of State for the Environment constituted an overwhelming case for doing so.

In further discussion it was suggested that any inquiry should be carried out as quickly as possible, in order not to risk losing the order from Japan nor prejudice the service to the United Kingdom AGR stations, which would have to close down if there were not facilities for reprocessing their fuel. The irradiated fuel elements would however have in any case to be stored for several years until

the new plant was ready to handle them. The inquiry should be in a form which enabled it to concentrate on the real question whether it was safe to construct an oxide fuel reprocessing plant rather than where such a plant should be sited. The only precedent for a planning inquiry commission, was the Roskill Commission on the third London airport which had taken 3 years. A non-statutory panel appointed by the Secretary of State or the Prime Minister and adopting the procedures used by a Royal Commission might offer the most expeditious solution. It could call for evidence from whom it chose, and would be free from the possible disruptive influence of the more irrational elements which it would be difficult to keep out of a public inquiry. Moreover questions might be raised which could not be answered in cross-examination at a public inquiry because of security considerations, and obligations to the United States. However it was important that all who wished to make their views known should have an opportunity both to do so and to challenge the views of the other parties as they could in a planning inquiry. There was moreover the danger that, if a non-statutory inquiry reached no clear-cut decision, there might be irresistible pressure for a subsequent planning inquiry.

THE PRIME MINISTER, summing up the discussion said that the Cabinet agreed that the Secretary of State for the Environment should ask BFNL to withdraw their application, and resubmit the three projects separately. He should allow the application for the improved Magnox facilities, and the vitrification pilot plan to go ahead, and subject to an inquiry the application with relation to plant for reprocessing oxide fuel. The Secretary of State for the Environment, should consider urgently in consultation with the Lord Chancellor the form of this inquiry and the possible composition of a non-statutory panel of distinguished and knowledgeable people to conduct it. He should bring proposals to Cabinet as soon as possible, and in formulating them bear in mind that the primary objective must be to satisfy public opinion on the safety not the location of the plant. He should also circulate for clearance if possible by correspondence the draft of an interim announcement to Parliament, which he could make before the Christmas Recess.

The Cabinet -

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

Cabinet Office

16 . December 1976

CM(76) 43rd
Conclusions

COPY NO 77

CABINET

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

WEDNESDAY 22 DECEMBER 1976

at 11.30 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 Anthony Crosland MP
Secretary of State for Foreign and Commonwealth Affairs

The Rt Hon Merlyn Rees MP
Secretary of State for the Home Department

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

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 Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon John Silkin MP
Minister of Agriculture, Fisheries and Food

The Rt Hon Roy Hattersley MP
Secretary of State for Prices and Consumer Protection

The Rt Hon William Rodgers MP
Secretary of State for Transport

The Rt Hon Stanley Orme MP
Minister for Social Security

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

THE FOLLOWING WERE ALSO PRESENT

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

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt	
Mr W I McIndoe	(Item 1)
Mr D le B Jones	(Items 2 and 3)
Mr A D Gordon-Brown	(Item 1)
Mr H J Blanks	(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 week beginning on 10 January.

THE LORD PRESIDENT OF THE COUNCIL said that, in the period up to Christmas, the Government had carried all the business which had to be carried before Christmas. The Scotland and Wales Bill had obtained its Second Reading; the Aircraft and Shipbuilding Industries Bill had been sent to the Lords; the Fisheries Limits and National Insurance Surcharge Bills were due to receive Royal Assent that day; and the Social Security Bill had started in Committee. It had not been possible to fit in Second Reading of the Water Charges Equalisation Bill, but it was hoped to do so soon after the House returned. The main problem in the period between Christmas and Easter would be shortage of time for essential legislative business. The Scotland and Wales Bill would need not less than two days a week; there would have to be an average of one Supply Day a week; and most Fridays would be taken up by Private Members' Bills. In addition, it would be necessary to complete the progress of the Social Security Bill through both Houses by the end of March; and there were eight other Bills (including one Bill combining the hitherto separate Bills on the International Monetary Fund, the Export Credits Guarantee Department liability limit, and Overseas Resources Development and Overseas Aid) which ought also to have passed through both Houses by about that date. There would not be more than about one day a week for these Bills, so they would have to queue up for Second Reading, and there could be no guarantee that they could be got through both Houses by the dates desired. This list of eight Bills excluded some important Bills, such as those on the Coal Industry, Direct Elections to the European Assembly and Price Control and Counter Inflation. It would not be possible to carry the Scotland and Wales Bill without a timetable motion at some stage; and during the Second Reading debate the Prime Minister had offered discussions with all Parties on how the time available might be allocated. The Chief Whip had already initiated discussions through the usual channels, which he himself would be following up. The official Opposition had been given an outline of the way in which time might be allocated; their initial reactions had been negative and their further reactions slightly less so. There had also been tentative approaches to the other Parties. It was just conceivable that the Opposition would agree to a timetable; they had their own difficulties on this Bill, and might not wish to spend unlimited time on it. Unless some agreement could be reached, the Government would have to consider in the New Year whether to table a timetable motion for debate in the first week after the Recess.

THE PRIME MINISTER, summing up a brief discussion, said that the position on the programme as a whole could be summed up as satisfactory to date, and the Lord President and the Whips deserved congratulations for keeping it up to schedule so far. The handling of the Scotland and Wales Bill would require further consideration after the Recess, and it would be useful to have a further report on the progress of the legislative programme about a month after Parliament had returned.

The Cabinet -

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

WINDSCALE

Nuclear Waste Proposal

Previous Reference: CM(76) 42nd Conclusions Minute 7

2. THE LORD CHANCELLOR reminded the Cabinet that the previous week they had decided that British Nuclear Fuels Limited (BNFL) should be asked to resubmit their planning applications for development at Windscale separately for the three projects, and that only the application for one of them - a plant to reprocess oxide fuel - should be made the subject of an inquiry. He and the Secretary of State for the Environment had been asked to consider what form of inquiry would be best for the purpose, bearing in mind the importance both of satisfying public opinion, and of speed, to minimise the risk of losing the substantial order in prospect from Japan for reprocessing work. They had considered three possibilities: a planning inquiry commission, a non-statutory inquiry and a normal statutory public inquiry. A planning inquiry commission would be long drawn out so the effective choice was between the two latter suggestions. The main arguments in favour of a non-statutory inquiry were speed and the ability to concentrate on the key issue of safety but it was likely to be faster than a planning inquiry only if it heard evidence mainly in private with no opportunity for cross-examination. This was unlikely to satisfy public opinion, which would demand that the majority of the sessions be public. Moreover public opinion was less willing now than in the past to accept the judgment of a panel of this kind, however eminent its members, and there was a risk that it might be seen as a device to evade the normal statutory planning procedures, and challenged in the courts. If this happened, or if the inquiry reached an inconclusive recommendation, a public inquiry might still have to be held, and time would have been lost rather than saved. Hence they had decided that the best course was to adopt from the start the normal procedure of a public planning inquiry. It would enable all the issues to be publicly ventilated, and provided that the presiding inspector maintained firm control, it should be possible to complete the proceedings in 9 months from the submission of BNFL's revised application. The choice of the presiding inspector would be very important, and he suggested that Sir Douglas Frank, the Chairman of the Lands Tribunal and formerly leader of the planning bar would be very suitable. He should be supported by two assessors with expert knowledge of the subject.

In discussion it was argued that the questions were not primarily of a planning nature. If the plant were to be built at all, Windscale was the only appropriate site; the aspects of most concern to the public were such issues as the safety of its operation, the transport of plutonium and irradiated fuel elements and the return of plutonium to overseas customers. These issues were hardly appropriate to a statutory planning inquiry. Moreover there seemed no reason why a non-statutory body should not follow the procedure adopted by Royal Commissions, accepting evidence from

anyone who wished to submit it, and inviting some of those who had done so to give evidence orally but without formal legal procedures. Doubts were also expressed whether a public inquiry would in fact be able to complete its work in 9 months, and whether the presiding inspector, however competent, would be able to exclude irrelevant matters which could waste a great deal of time.

It was argued on the other hand that if a non-statutory inquiry followed the procedure of Royal Commissions, it was unlikely to be able to complete the task any faster than a public inquiry. The latter would not have to take evidence from all who wished to give it; this was a matter for the presiding inspector's discretion. The legislation prescribed that the safety, health and general welfare of the people were matters which planning inquiries should consider. The Secretary of State for the Environment could write to the chairman of the inquiry drawing attention to the principal considerations which he should take into account and urging him to proceed with all due speed. The presiding inspector could admit evidence on any matter which he considered relevant but equally rule out irrelevant and repetitive matter. During the inquiry on the installation of a floating buoy near Anglesey to enable tankers to off-load oil, evidence had been admitted on the general oil needs of the country and on the ecological effects of spillage. When decisions based on public inquiries took a long time, this was often the result of delay in setting them up, or of dealing with the recommendations in Whitehall. The Japanese did not expect to send their first consignment of irradiated fuel for reprocessing, under the new contracts, for at least 18 months, but this did not mean that they would be prepared to wait as long as that for a decision. It might be useful to explain our problems to the Japanese Ambassador. Other things being about equal there was everything to be said for following the normal procedures of the Planning Acts as any departure from them would arouse controversy. There were good grounds for hoping that the inspector would recommend a go ahead for the project; but if he did not there would be a major issue for consideration by Cabinet.

In further discussion it was noted that the Chairman of the United Kingdom Atomic Energy Authority had written to a number of the Departments concerned reminding them that in a Parliamentary answer on 12 March the Government's decision to authorise BNFL to take on oxide fuel reprocessing work from overseas had been announced. He had urged that any inquiry should be confined to the safety of a particular plant at a particular site, avoiding wider issues which might cast doubt on our intention to provide any reprocessing facilities for oxide fuels. It was not possible fully to meet this point but as much reassurance as possible should be given to potential overseas customers in replies to supplementary questions after the statement which the Secretary of State for the Environment would be making that afternoon.

THE PRIME MINISTER, summing up the discussion, said that although several Ministers had expressed reservations, on balance the Cabinet accepted the recommendation by the Lord Chancellor and the Secretary of State for the Environment that the planning application should be submitted to a statutory planning inquiry and that the Secretary of State for the Environment should announce this decision that afternoon. They also agreed that the Lord Chancellor should approach Sir Douglas Frank to ascertain whether he was willing to act as presiding inspector. The Secretary of State should send a letter of guidance to the inspector, when appointed, drawing his attention to the importance of safety and environmental effects rather than questions of location of the reprocessing plant. He should also consider who might be invited to assist as expert assessors, and submit proposals on this to the Prime Minister. The arrangements for holding the inquiry should be completed as quickly as possible.

The Cabinet -

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

MERIDEN MOTORCYCLE CO-OPERATIVE

3. The Cabinet had before them a minute from the Chancellor of the Duchy of Lancaster to the Prime Minister dated 21 December reporting the conclusions of a group of Ministers (GEN 55(76) 1st Meeting) on possible forms of assistance to the Meriden motorcycle co-operative.

THE CHANCELLOR OF THE DUCHY OF LANCASTER said that the Ministerial Committee on Economic and Industrial Policy had asked a group of Ministers under his chairmanship to consider proposals of possible means of enabling the co-operative to continue in operation for a period. The only basis for assistance which seemed acceptable to the group was for the Government to subordinate its existing loan to Meriden to the interests of other creditors, thus possibly enabling the co-operative to borrow elsewhere, and to capitalise the interest due in January. If such assistance were provided, however, it should be subject to the condition that there should be no substantial increase in the stocks of motorcycles which had to be financed by the Government and that the co-operative must persuade Norton Villiers Triumph (NVT) to continue to market its product in acceptable quantities and at acceptable prices. Although the co-operative had substantial achievements to its credit their fortunes were wholly dependent on a machine which was coming to the end of its commercial life. Their difficulties were the greater because they lacked management expertise and because the economic conditions in which they were operating were more difficult than they had been when they were created so that alternative work was hard to find. The Government had shown itself flexible and prepared to experiment through its initial support of the co-operative, but further investment of new funds could not be justified. The Cabinet should be aware that even the provision of limited assistance such as he had described would cause problems. The Attorney General had advised that a waiver of interest and subordination of the Government's investment could result in claims against the Government under Section 332 of the Companies Act 1948. While he did not question the legal advice he did not however consider that the practical danger for the Government on this score was great. Consideration would also need to be given to the presentation of such a policy to the Public Accounts Committee. He had been advised by the Accounting Officer of the Department of Industry that he would not feel able to justify the subordination of the Government's investment to the interests of other creditors except on the grounds that the Ministers had so directed, since there would not be a commercial justification for such subordination. Finally he should warn the Cabinet that even action such as he had described did not hold out any great prospect of enabling the co-operative to survive for any substantial period.

THE SECRETARY OF STATE FOR INDUSTRY said that when assistance had been provided to the Meriden co-operative in 1974 it had been made clear, as in the case of assistance to other co-operatives, that this was once and for all. The co-operative faced a very difficult position because the crucial United States market was dominated by the Japanese industry and its only product, the Bonneville motorcycle, was an obsolescent design. The co-operative's cash position had been steadily deteriorating and a report by Price Waterhouse made clear that there was no possibility of their finding interest of £203,000 they were due to pay to the Government in January. A further report by the Boston Consulting Group indicated that the only possibility of achieving viability would be to concentrate on the low volume large motorcycle market but that this would involve a minimum investment of £6-£8 million and a similar amount in finance from the Export Credits Guarantee Department. He could not recommend the investment of such sums to provide employment for 700 men with a low prospect of long term viability in contravention of the previous earlier commitment that the assistance provided to Meriden was once and for all. The co-operative themselves believed that much smaller sums were needed but he considered they were mistaken. The Ministerial Committee on Economic and Industrial Policy had concluded that the co-operative's wish to take over itself the responsibility for marketing its products should not be supported. While he did not recommend a major new investment he hoped that the Cabinet would agree to limited measures described by the Chancellor of the Duchy of Lancaster, which might enable the co-operative to continue for a limited period.

In discussion it was argued that the decline of the motorcycle industry was a microcosm of the wider decline of British industry. Over a period of 25 years it had suffered from a succession of bad managements and from successive plans for reorganisation drawn up by consultants. The experiment of Meriden had excited the Labour movement but in fact the Government's assistance had been hedged with conditions as to the once and for all nature of finance and requirements of viability which did not apply to assistance to private industry. The violent opposition from industrialists to the experiment was motivated by fear that workers would see in co-operatives an alternative to accepting dismissal. There were suspicions that NVT had deliberately held down sales of Meriden's machines so as to damage the co-operative's prospects. It was wholly unreasonable to expect the co-operative in 18 months to reverse the decline of 25 years. The workers at Meriden were convinced of their future prospects and the Cabinet had to decide whether to back the workers or the consultants. The right course would be to decide that ways must be found to recreate a major British presence in the growth market offered by the motorcycle industry.

On the other hand it was argued strongly that the Government's earlier assistance had been based on advice from the sponsors of the co-operative that there was a market for 24,000 motorcycles a year. In practice sales the previous year had been only 6,000 and existing stocks were 5,000. The market open to Meriden was not a growth market. It was one which was becoming dominated by the Japanese. To provide assistance to this industry would mean taking it away from others with greater prospects of success. The decline of the industry had been accelerated by the decisions of the present Government to assist Meriden at the expense of other plants. Continued assistance to Meriden would be politically damaging: many workers in the Birmingham area believed that they had lost their jobs for Meriden's benefit. Moreover it would be wholly unsatisfactory to insist as part of the new package of assistance that NVT continued to market Meriden's output. They had been induced against their will to accept responsibility for marketing because they had been led to believe that this would result in other assistance from the Government which had not in fact been forthcoming. Nevertheless NVT had the strongest of commercial motives to achieve the highest possible sales of the machines they bought from Meriden, and suspicions that such sales had been artificially restricted should be discounted.

In relation to the limited measures of assistance put forward by the Chancellor of the Duchy of Lancaster it was argued on the one hand that they would extend the life of the co-operative at no real cost. The loan which it was proposed to subordinate was never in fact likely to be repaid and the interest which it was proposed should be waived could not in any case be paid. While these limited measures might prove ineffective because they were dependent on continued marketing by NVT, and while the conditions to limit the build-up of stocks might in any case require a cut back of employment they would offer the co-operative some further prospects. Even if liabilities were incurred under Section 332 the total amount owed to creditors at present was only £1¼ million, some of which was owed to the Government. On the other hand it was argued that it was clear that the experiment at Meriden had failed and that it would be unwise to prolong its death throes.

THE PRIME MINISTER, summing up the discussion, said that while there were differing views the balance of opinion with the Cabinet was that it would not be a good use of resources to make the large scale investment which would be required to offer any prospect of viability to the co-operative. If no new finance were to be provided the question whether the limited measures recommended by the Chancellor of the Duchy of Lancaster should be offered became a difficult question for tactical judgment. The Secretary of State for Industry should consult further with the co-operative and with

Mr Jack Jones of the Transport and General Workers Union. If in the course of these consultations he judged it wise to offer the subordination of the Government's existing loan and the capitalisation of the interest due to the Government in January subject to the conditions set out in the Chancellor of the Duchy of Lancaster's minute he was authorised to do so. He should however make clear that the Government would provide no new finance and that the assistance offered would depend on the co-operative being able to make satisfactory arrangements with NVT for the continued marketing of their products.

The Cabinet -

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

Cabinet Office

22 December 1976