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CM(78) Series

CABINET

MINUTES OF MEETING

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2nd	26.1.78		1 PARLIAMENTARY AFFAIRS Scotland Bill Arrangement with the Liberals 2 DISCLOSURES TO THE PRESS 3 FOREIGN AFFAIRS Belize Rhodesia
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CM(78) 1st
Conclusions

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CABINET

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

THURSDAY 19 JANUARY 1978

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 Denis Healey MP
Chancellor of the Exchequer

The Rt Hon David Owen MP
Secretary of State for Foreign and Commonwealth Affairs

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

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

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

The Rt Hon Fred Mulley MP
Secretary of State for Defence

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

The Rt Hon Lord Peart
Lord Privy Seal

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

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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 Eric Varley MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Northern Ireland

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

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

ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt	
Sir Clive Rose	(Items 2 and 3)
Mr M D M Franklin	(Items 2 - 4)
Mr P Le Cheminant	(Items 5 and 6)
Mr A D Gordon-Brown	(Item 1)
Mr A K H Atkinson	(Items 1 and 4)
Mr P Mountfield	(Item 5)
Dr N B W Thompson	(Item 6)

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PARLIAMENTARY AFFAIRS

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

European Assembly Elections Bill

Previous Reference: CM(77) 40th Conclusions, Minute 1

New Clause on the Powers of the Assembly

Previous Reference: CM(77) 38th Conclusions, Minute 1

THE LORD PRESIDENT OF THE COUNCIL recalled that Cabinet at their meeting on 1 December 1977 had invited him to consider with a small group of the Ministers concerned the scope of a new clause for the Bill which would require an Act of Parliament to approve Treaties extending the powers of the Assembly. The group had reported in favour of a new clause which would cover all such Treaties and also any Treaties extending the Assembly's right to be consulted. This would offer the most comprehensive reassurance to Parliamentary anxieties. The clause would not catch extensions of the powers and rights of the Assembly which were not the subject of Treaties.

In discussion it was argued that the recommendation of the Ministerial Group offered the simplest and most satisfactory solution. There would be criticism if a distinction were drawn between the powers and the rights of the Assembly. It was essentially a consultative body and it would be anomalous to exclude its right to be consulted from the ambit of the clause. Extensions of that right would encourage pressure for extending its powers. There was a clear United Kingdom interest in preserving the powers of the Council which were rooted in those of national parliaments against those of the other institutions which had a more federal character. It would be unacceptable to open the door to a right for the Assembly to be consulted, for example, about national policies.

On the other hand it was argued that it would be wrong to require an Act of Parliament to approve Treaties which merely extended the Assembly's right to be consulted. Given the prospective strength of our Assembly delegation it would be in our interests to encourage the Assembly's influence against bureaucracy in the Community. The Cabinet had previously taken the view that the need was to improve control of the powers and not the rights of the Assembly. The normal procedure for affirmative resolution of both Houses would be adequate for the latter purpose, and a requirement for an Act of Parliament would go too far to meet Parliamentary opponents of the Bill without satisfying them. It might at the same time alienate supporters of the Bill, would give an unfortunate impression of hostility to the Assembly and would be inconsistent with our attitude to open Government.

THE PRIME MINISTER, summing up the discussion, said that by a majority the Cabinet agreed that the new clause should require an Act of Parliament to approve Community Treaties extending the powers of the Assembly, but not Treaties extending its right to be consulted.

The Cabinet

1. Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Lord President of the Council, in consultation with the Home Secretary and the Foreign and Commonwealth Secretary, to proceed accordingly.

Timetable Motion

THE LORD PRESIDENT OF THE COUNCIL said that he was proposing a timetable motion on the European Assembly Elections Bill on Thursday, 26 January. This was likely to cause a row, but without it the Bill would take up an undue amount of time in the Commons, which would have a bad effect on the atmosphere. A timetable motion was essential in order; to ensure that the Government's other business in the current session could proceed.

In discussion it was suggested that this motion would raise delicate issues in the Labour Party and in the country, since official Party policy was against direct elections and the Parliamentary Party were divided on this issue. The motion might also be criticised as untimely, coming so soon after direct elections had officially been postponed until 1979. There was a majority for the Bill in the House, and it should be left to that majority to carry the motion on a free vote.

On the other hand it was pointed out that the motion would allow 8 days in all for discussion of the Bill in the House of Commons, compared with the six days which had originally been envisaged in the planning of the legislative programme. The point of the motion was to ensure that the Government's business could be carried through, and Government backbenchers generally now understood that without a timetable motion this Bill would take up a great deal more time, to the detriment of other Government business of major importance. Adequate time would be allowed to complete the debate on the method of election in Northern Ireland. What had been said to other members of the Community had been intended to extricate the United Kingdom from any commitment to take part in direct elections before we were ready, making clear that we could not now meet the original date of May/June 1978, but only preparing the ground for a decision to postpone the elections for a year, which had not yet been taken; there were some in the Community who still hoped for elections in the Autumn of 1978, a manifestly unsuitable time for the United Kingdom.

THE PRIME MINISTER, summing up the discussion, said that the timetable motion was not concerned with any issue of principle, but with the need to carry the Government's business, an aim which all members of the Government should support. It would be a serious psychological setback for the Government if the motion was not carried. The Chief Whip was proposing a two-line whip for this vote, and any Ministers who felt unable to vote for the motion would absent themselves from the House in an inconspicuous way, for instance because of other engagements.

The Cabinet -

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

Judge Neil McKinnon

THE LORD PRESIDENT OF THE COUNCIL said that Mrs Barbara Castle and other Labour backbenchers had put down an Early Day Motion, which had attracted well over 100 signatures, for the removal of Judge McKinnon, and had twice been to see him to press for a debate. Feelings against the Judge were very strong, and supporters of the Motion represented a wide cross-section of the Party. He was against allowing time for a debate, which would have to be on the substantive motion to remove the Judge, because of the prospect that the motion would be defeated and the vote would appear to exculpate the Judge. But the delegation had not been persuaded by this consideration, and he had promised to report their views to the Cabinet.

In discussion it was suggested that this case raised a general issue about the limits of acceptable behaviour on which it was important that the House as a whole should express a view, which the judiciary would take note of. The immigrant community had been much unnerved, not only by the remarks of the Judge but also by the subsequent comments made in many newspapers and by some members of the establishment. But matters would be made worse if there was a debate on a motion which was then defeated, and a debate concerned with an individual Judge would not be the most suitable occasion for dealing with the wider issues involved. There was a need for a concerted look at these wider issues and at all aspects of the activities of the National Front, for instance in the schools.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that a debate on the motion to remove Judge McKinnon would not be desirable. Other opportunities might arise for Ministers to make comments without impinging on the independence of the judiciary, and the wider issues involved were

appropriate to a more general debate on race. There might be a need for a study in depth of the activities of the National Front and the progress they were making in the country, and he would himself consider how consideration of this matter could best be handled.

The Cabinet -

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

FOREIGN AFFAIRS

Horn of Africa

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that a potentially dangerous situation had arisen as a result of the introduction into Ethiopia of large numbers of Russians and Cubans and of the build up of Soviet arms. There were many complicating factors involved in the dispute between Ethiopia and Somalia which made it difficult to decide how best to react. We were in contact with our three principal allies, United States, France and the Federal Republic of Germany, about what should be done. It seemed probable that at this stage the most useful next step would be for the matter to be taken before the Security Council.

Southern Africa

Previous Reference: CM(77) 40th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that we were going through a difficult period in the discussions on both Namibia and Rhodesia. On Namibia he hoped it would be possible to arrange for the Foreign Ministers of the five members of the Contact Group to meet with the South African Foreign Minister early in February in an attempt to resolve the oustanding problems. On Rhodesia Mr Nkomo and Mr Mugabe had now agreed to meet him in Malta for two or three days from 26 January. They were making difficulties over our proposals because of their wish to dominate the scene in Rhodesia during the transitional period. Their aim was to ensure that whatever the results of the elections, the Patriotic Front maintained control. We clearly could not accept this. They were also urging us to condemn Mr Smith's discussions about an internal solution. He had so far been careful neither to condemn nor to endorse these discussions and thought it right to continue to take this line. It was not necessary to take up a firm position until we saw what eventually emerged. Meanwhile his aim was to get Mr Nkomo and Mr Smith together within the framework of the United States/United Kingdom proposals, but Mr Nkomo had been taking an increasingly hard line and was more and more inclined to favour a military solution. His fear was that the Rhodesians might at some point decide to take military action with the intention of destroying Mr Nkomo's forces in Zambia. This would create a very difficult situation for us. It was undeniable that there had been some progress on Rhodesia in the internal negotiations towards the concept of one man one vote, just as there had also been progress towards a settlement for Namibia. But such progress as had been made was not in a direction which either the Patriotic Front or SWAPO found satisfactory to their interests.

THE PRIME MINISTER said that while in India, Prime Minister Desai had agreed to send a letter urging that all Rhodesian Nationalist leaders should get together. Their failure to do so was a major obstacle to progress towards a Rhodesian settlement. The fact was that Mr Smith appeared ready to offer Mr Nkomo virtually what he wanted but Mr Nkomo was not prepared to take up the offer, or even to enter into negotiations on it.

Middle East

Previous Reference: CM(77) 40th Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that there were faults on both sides in the situation which had developed in the negotiations between Israel and Egypt. Prime Minister Begin's aim was to maintain the Israeli settlements in Sinai, defended by Israeli forces. There was no possibility of this being acceptable to the Egyptians and the hope must be that he would give way on this point. A major objective was to get Jordan involved in the discussions since this would be essential in the context of a solution to the problem of the West Bank. What was needed was cool heads on the part of all those involved and in this respect the contribution of the United States Secretary of State, Mr Vance, would be specially helpful.

India

Previous Reference: CM(77) 37th Conclusions, Minute 4

THE FOREIGN AND COMMONWEALTH SECRETARY said that the Prime Minister's visit to South Asia had been an unqualified success which had enhanced our position and strengthened the Commonwealth. The Cabinet were grateful to him for undertaking it.

THE PRIME MINISTER said that he would not repeat the long statement on his visit to the Sub-Continent which he had made in the House on 16 January. There were however two points which he wished to add. The first was that, until he had talked to people in India, he had not realised the full extent of the damage which Mrs Gandhi had done to the country during the emergency. This had been very serious and the Janata Party, which formed the Government coalition, had the task of restoring the situation. Speaking for the Official Congress, Mr Chavan had said that if Mrs Gandhi was prepared to admit that the emergency had been a serious mistake the two parts of Congress could be re-united. He had reported these remarks to Mrs Gandhi who had said only that she did not think there would ever be a need for another emergency of the kind she had introduced. The second point was the impression he had received of the deep attachment in India to democracy, which had been strengthened by recent events. When Ministers had discussed policy towards India last year the Foreign and Commonwealth Office had been inclined to take the view that India should take a rather lower place in our priorities. He had then had doubts about this view and his conviction of the importance of our relations with India had been reinforced as a result of his visit.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Common Fisheries Policy

Previous Reference: CM(77) 39th Conclusions, Minute 4

3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Fisheries Council had not yet been able to reach full agreement but the Ministers were to meet informally in Berlin on Friday 27 January with a view to reaching a final compromise. This could then be adopted formally at a subsequent Council meeting. The issue turned on how, within the Treaties, our minimum requirements of exclusivity within 12 miles and preference between 12 and 50 miles could be met. Since the meeting on 27 January might well be decisive, he would need before then the agreement of his Cabinet colleagues on the line to take.

Steel

THE SECRETARY OF STATE FOR TRADE said that at the Foreign Affairs Council he had been able to secure adequate assurances from the Commission about the way in which they would conduct the bilateral negotiations with steel-supplying countries but he had reserved the right to return to the question at the February Council if necessary.

Multilateral Trade Negotiations

THE SECRETARY OF STATE FOR TRADE said that careful drafting to meet French electoral preoccupations had enabled the Council to endorse the Commission's proposals, including an initial offer on tariffs, for entering the substantive phase of the GATT (General Agreement on Tariffs and Trade) multilateral trade negotiations.

Cyprus

THE FOREIGN AND COMMONWEALTH SECRETARY reported that, despite French and Italian reluctance, it had been possible to secure some flexibility in the terms for negotiation of a new trade agreement with Cyprus, following the Cypriot President's approaches to the Prime Minister and other European Economic Community Governments. The Germans and the Danes had joined us in the Council in stressing the political importance of a satisfactory settlement.

The Cabinet -

Took note.

E GREEN
UND

4. The Cabinet had before them a memorandum by the Minister of Agriculture, Fisheries and Food (CP(78) 3) on the Green Pound.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that an immediate 5 per cent devaluation of the green pound was needed in the interests of pigmeat and beef producers and processors. Production and employment in these sectors were in decline as a result of excessive monetary subsidies on our imports notably from Denmark and Ireland. A 5 per cent devaluation would be reasonable for other sectors which would inevitably benefit from it. Deferment of a devaluation until the common price negotiations in April would not meet the immediate need and would present tactical difficulties both in Parliament and in the price negotiations, where our partners would be likely to link our need for a devaluation with their own demands for higher common prices. Discussions with the Liberal Party had suggested that their support for an immediate devaluation of 5 per cent would be conditional on a Government commitment to a further increase of 5 per cent in support to producers over the next 12 months. This might come by way of a further devaluation of the green pound or an increase in common prices or possibly through the appreciation of sterling. An amendment on these lines to the Opposition motion calling for a $7\frac{1}{2}$ per cent devaluation might therefore avert the risk of a defeat for the Government in the forthcoming Supply Day debate.

In discussion it was argued that an immediate devaluation of the green pound would not solve the problems of the pigmeat sector and that those of the beef sector were not pressing. Additional support for cereals and sugar producers was not necessary. It would be preferable if the timing of the devaluation could be varied between commodities and if devaluation could be deferred until the common price increases were known. While a commitment to some additional increase in support over the next 12 months might be acceptable, its extent and timing should be determined by the Government, taking account of the interests of producers and consumers; and should not be dictated by Parliamentary pressures. It would be a departure from the Government's previous policy to seek a devaluation greater than was implied by earlier proposals of the Commission. We would still be open in the price fixing to pressure for a further devaluation. The Trades Union Congress had urged the Government not to devalue and would not understand the apparent change in policy. The Government would be held responsible for price increases in the Autumn for basic foodstuffs of importance to low income families at a time when the retail price index might be rising in any event.

On the other hand it was argued that a defeat for the Government would be damaging and there was no prospect of securing Liberal support without some immediate devaluation. The Government's overriding concern in accordance with its strategy for the Common Agriculture Policy (CAP) must be to restrain common price increases. It was therefore better to cater for the needs of our own

producers by devaluation of the green pound than through higher common prices. It would be desirable to seek deferment of the application of the proposed devaluation to cereals and sugar but not at the price of delaying action in the pigmeat and beef sectors. By seeking an immediate devaluation greater than that envisaged earlier by the Commission we would be in a stronger position to resist a further devaluation later. While common price increases and the appreciation of sterling might make a further devaluation unnecessary it would be premature to exclude the possibility.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Minister of Agriculture should seek an immediate devaluation of 5 per cent in the green pound, though he should endeavour to secure the deferment of its application to cereals and sugar. He should continue to give overriding priority to the Government's strategy of resisting common price increases especially for surplus commodities: and he should explain to the Trades Union Congress and to the Party that it was the Government's policy to meet the requirements of our producers and processers in this way rather than compromise on our strategy of holding down the common CAP prices. The Lord President of the Council in consultation with the Ministers directly concerned should prepare an Amendment to the Opposition's Motion covering not only the Government's immediate intention but also, without specific commitment, the possibility of a further devaluation or other measures to support producers later in the year; and should seek to secure the Liberals support for such a Motion.

The Cabinet -

Took note, with approval, of the Prime Minister's summing up of their discussion and invited the Minister of Agriculture, Fisheries and Food and the Lord President of the Council to be guided accordingly.

MORANDUM ON
CHANGE CONTROL
R LIAISON
MMITTEE

5. The Cabinet had before it a note by the Chancellor of the Exchequer (CP(78) 2), covering a draft of an information paper on exchange control which he proposed to circulate to the Parliamentary Labour Party/Trades Union Congress Liaison Committee.

THE CHANCELLOR OF THE EXCHEQUER said that his paper was intended to explain the reasons for the present exchange control system and for the recent changes which had been made in it, together with the arguments for and against any further relaxation. It emphasised that the purpose of exchange control was to protect the balance of payments and the reserves, rather than employment or investment in the United Kingdom. While this was still an important role, we now had enormous reserves and a strong balance of payments. Some parts of the apparatus which were damaging in the longer term, but which had been necessary to protect sterling in the short term, could now be dismantled. We were obliged under the Treaty of Rome to abolish all restrictions on capital movements within the Community on 1 January 1978, but as the Ministerial Committee on Economic Strategy had agreed, he had been able to persuade the European Commission to accept the continuation of most of the system for a further 12 months in exchange for some relatively minor concessions. Those changes would help rather than hinder our objectives. The recently-abolished exchange controls had little effect on industrial investment overseas by big companies, who could either finance this out of retained earnings or from overseas borrowing. But they were damaging to smaller firms, who might be able to expand United Kingdom production and employment if they could invest overseas, for example in distribution networks. He was however against any significant further relaxation. It was difficult to quantify the effect this would have on investment at home. The inquiry carried out in the early 1970s by Professor Reddaway was not conclusive on this point. He was not convinced by the argument that the abolition of exchange control would help to keep the exchange rate down. Some who advocated this course had a strong financial interest in encouraging outward investment. He thought the paper struck the right balance and would help to remove a number of current myths about exchange control.

In discussion the point was made that the paper did not sufficiently emphasise our treaty obligations to get rid of exchange controls in Europe. But it was suggested that this would be better deployed orally to the Liaison Committee, rather than spelt out in the paper.

In further discussion it was suggested that while the paper had understandably been drafted in a low key, it contained much explosive material and would attract considerable criticism from the Trades Union Congress (TUC). It was altogether too financially oriented, and failed to concentrate on the issues of trade and jobs. While the original purpose of exchange control

might have been to protect the exchange rate and the reserves, it had come over the years to be associated with a correction of imbalance in the British economy resulting from excessive export of capital in the past. The large surplus which North Sea oil would bring to the balance of payments in the next few years meant that the export of capital would again be a problem. Although the value of exchange control in preserving jobs in this situation might be a myth, it was a widely held one which needed a fuller answer. The Treasury 'Economic Progress Report' annexed to the draft paper provided some of the arguments. The Secretary of State for Trade had submitted a paper to the National Economic Development Council (NEDC) during 1977 about overseas investment which set out further arguments. That paper, or parts of it, might also be annexed to the Chancellor's draft. It might also be argued that much of the money which might be invested overseas was held in sterling by foreigners, and that exchange control should be imposed on non-resident sterling. The arguments against this should therefore be set out in the paper.

THE PRIME MINISTER, summing up the discussion, said that Cabinet agreed with the general lines of the paper which the Chancellor of the Exchequer proposed to circulate to the Liaison Committee. An additional paragraph should be added to deal with the question of non-resident sterling, and the Chancellor of the Exchequer should consider with the Secretary of State for Trade whether to annex to it part or all of the NEDC paper on overseas investment and its effect on employment in the United Kingdom. He should also re-examine the rest of the paper, notably paragraphs 17 and 18, to see whether the presentation could be improved in order to meet criticisms which might be expected from the Liaison Committee. The Chancellor of the Exchequer should circulate a revised version of the paper to the Liaison Committee, sending it to Cabinet Ministers for information at the same time.

The Cabinet -

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

WHITE PAPER ON AIRPORTS POLICY

6. The Cabinet considered a memorandum by the Secretary of State for Trade (CP(78) 4) about a White Paper on Airports Policy.

THE SECRETARY OF STATE FOR TRADE said that following the decision in July 1974 to abandon the Maplin Project, a wide-ranging review of airports policy had been initiated. Consultations with those affected by airport developments had been very extensive over 600 organisations and many individuals had made representations and Ministers, including those of the Department of the Environment, had been involved. A White Paper had been expected for some considerable time and before the Recess the House had been informed that publication would be likely early in 1978. A clear statement of policy was urgently required because of the need to set up a tribunal to consider plans for a fourth terminal at Heathrow. Knowledge of the Government's policy would be essential to objectors in formulating their representations to the tribunal. He was conscious of the need to mitigate as far as possible the political embarrassment that a major policy statement on this emotive subject might produce, and every effort had been made to this end in preparing the draft in its present form. This had been particularly the case in regard to the sensitive problem of the future of Luton Airport on which the White Paper contained proposals. As regards Stansted, the proposal was to postpone a decision on major expansion. As for the airports in the Highlands and Islands, he believed that on grounds of efficiency all these should be transferred to the British Airports Authority (BAA), but with the exception of Sumburgh in the Shetland Islands, he had subsequently accepted the view of the Secretary of State for Scotland that future arrangements for these should be left for the Scottish Assembly to consider. But Sumburgh was vital to the oil industry and the rapid growth of traffic there presented management problems beyond the capabilities of the present operators, the Civil Aviation Authority (CAA). He was therefore proposing that this airport should be transferred as quickly as possible to the BAA. In its present form, he considered that the draft had avoided to a considerable extent the potential political difficulties and he therefore sought the Cabinet's agreement to the White Paper's publication.

The draft was then considered section by section and the following main points were made in discussion:-

a. Types of Airport. The categorisation of airports was logical, but to refer to category C airports as "local" might be judged insensitive and could cause resentment in some areas.

b. Regional Diversion. Although statistics showed that 80 per cent of passengers terminating their journeys at London Airport had origins and destinations in the South East, it was questionable whether this applied to charter traffic, a substantial proportion of which derived from the

Midlands. Less disturbance might be caused if some of this traffic were diverted from Luton to other airports such as Birmingham Elmdon which had better facilities. On the other hand, it was argued that London was undoubtedly the area to which tourists wanted to come, and it would be unrealistic to believe that it would be easy to change this attitude. The White Paper's conclusions had recognised as far as possible the limitations of Luton Airport.

c. Gatwick. It was questioned whether the substantial expansion envisaged for this airport could be accommodated without a second runway. Careful technical assessment had shown that a single runway would suffice at least until 1990 mainly because of the introduction of wide-bodied airliners. This had meant that the limitation to an airport's capacity had become that of the terminal facilities rather than the runway's.

d. Stansted. It was suggested that expansion of this airport beyond a capacity for 4 million passengers a year would be unjustified, because of the effect on a largely unspoilt area which at present enjoyed the lowest level of unemployment in the country. Whereas expansion of this airport made sense from the limited viewpoint of airport policy, it was an unattractive proposition from the planning point of view. The White Paper, however, contained no decision on Stansted because none was needed now.

e. Leeds/Bradford. The conclusion (paragraph 121) that "the Government does not consider that the demand is such as to justify the massive expense which would be involved in the provision of a new airport in Yorkshire and Humberside" would be bound to provoke a strong reaction in those areas. Without changing the essential conclusion, it would be desirable to revise the terms in which it was expressed.

f. Newcastle and Teeside. The conclusion in favour of developing Newcastle as a regional airport would be received with criticism on Teeside where industry was growing more rapidly. There was general agreement however, with the White Paper's conclusion that Newcastle had advantages over Teeside, though it was questioned whether with shortened rail journey times made possible by the Highspeed Train substantial investment in facilities catering for international air services only 300 miles or so from London could be justified. The text needed to be looked at again to ensure appropriate balance.

g. South Wales and South-West England. The proposal (paragraph 130) that Glamorgan should have the role of a category B airport, but Bristol only category C would also attract adverse comment. Without changing the policy, attention should be given to the White Paper's presentation in anticipation of the criticism that it would provoke in Bristol.

h. Northern Scotland, Sumburgh. Although a strong case could be made out for transferring all the Highlands and Islands aerodromes to the BAA, it was right, as the latest draft of the White Paper recognised, for a decision to await the setting up of the devolved administration. The political considerations which underlay this conclusion applied however with equal force to Sumburgh as to other aerodromes in the Highlands and Islands, and its administration should not therefore be transferred to the BAA.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet endorsed the proposals contained in the draft White Paper with the exception that Sumburgh, as well as the other Highlands and Islands aerodromes, should remain the responsibility of the CAA for the time being. A number of presentational points had been raised in discussion and the Secretary of State for Trade should seek to agree textual changes with the Ministers concerned. In the event of disagreement, reference should be made to him for a decision. Subject to this, the White Paper should be published as soon as possible.

The Cabinet -

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

Cabinet Office

19 January 1978

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CM(78) 2nd
Conclusions

COPY NO 75

CABINET

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

THURSDAY 26 JANUARY 1978

at 9.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon David Owen MP
Secretary of State for Foreign and Commonwealth Affairs

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

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

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

The Rt Hon Fred Mulley MP
Secretary of State for Defence

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

The Rt Hon Lord Peart
Lord Privy Seal

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

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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 Eric Varley MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Northern Ireland

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

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

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 6)

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr W I McIndoe (Items 1 and 2)
Sir Clive Rose (Items 3 and 5)
Mr M D M Franklin (Items 3, 4 and 6)
Mr P Le Cheminant (Item 7)
Mr A D Gordon-Brown (Items 1 and 2)
Mr A K H Atkinson (Item 4)
Mr P Mountfield (Item 7)
Mr C H Wilson (Item 6)

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ARLIAMENTARY FFAIRS

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 Opposition had chosen unemployment as the subject for the Supply Day debate on Monday, 30 January, though the terms of their Motion were not yet known. He had had tentative discussions with the Liberals, and hoped that it would be possible to devise a Government amendment to the Motion which the Liberals would support.

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THE LORD PRESIDENT OF THE COUNCIL said that the Government had suffered serious defeats in the votes on the Scotland Bill the previous evening. There had been a considerable delay in the taking of the second vote. This had been caused by prolonged discussions in the Lobby involving members of the Scottish National Party and Government Whips, about whether the Government should seek to ensure in Committee that the referendum clause should stand part of the Bill in its amended form, or whether to allow the clause to fall and seek to reinstate it in a more acceptable form on the Report Stage. Had the delay continued, it would have prevented the third vote from taking place before the guillotine fell at 11 pm. Points of order had been raised and the Chairman, Sir Myer Galpern, had sent the Serjeant at Arms to investigate, and had then ordered the voting figures to be reported to the Chair without further delay. He himself had at once got up and said that if there had been any improper delay in the lobbies, this was most reprehensible and the House would not condone it. Mr Francis Pym, the Opposition spokesman, had then protested about the incident and had unsuccessfully attempted to persuade Sir Myer Galpern to inform the House what report he had received from the Serjeant at Arms. The Opposition were in a belligerent mood and would seek to pursue the matter. He accordingly proposed to make a brief statement before the business statement that afternoon, aimed at closing the whole affair. This would be to the effect that he had conducted some investigations the previous night with Members of his own Party who had been engaged in an altercation in the lobby about what was to happen in a subsequent division; that he thought this discussion had been improperly prolonged and could have affected the timing of the next vote, although in the event it did not do so; and that he apologised to the House that this should have occurred, and trusted that it would not occur again.

In discussion it was pointed out that, while the Opposition were seeking all possible opportunities to embarrass the Government on the Scotland Bill, and must be expected to pursue their attempts to get Sir Myer Galpern to inform the House what the Serjeant at Arms

had reported, Labour backbenchers, who were opposed to the Bill and to the operation of the guillotine, were also involved and were causing difficulties for the Government. There was a good deal of bad feeling on the Government backbenches, which might persist for some time and might also lead to difficulties on the European Assembly Elections Bill.

THE PRIME MINISTER, summing up the discussion, said that once the Lord President of the Council had made an apology that afternoon, that should be the end of the matter. It was difficult to see how the Opposition would be able to take it any further, and in any event the Government backbenchers should not support any attempts to do so. If the Government was to carry on, it was necessary that all Labour Members should be brought to understand the need to remain steady in the present Parliamentary situation and to support the Government; and it was equally important that the Cabinet itself should present a united front. It would be necessary to consider later what action the Government should take on the matters on which they had been defeated in Committee on the Scotland Bill.

The Cabinet -

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

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THE PRIME MINISTER said that at recent meetings Mr David Steel, the Liberal Leader, had pointed to the need for improved consultations between Ministers and Liberal spokesmen. Mr Steel had given some instances where he considered that the Government had not kept to the spirit of the arrangement with the Liberals, and it was important to avoid any failures to consult. Cabinet Ministers, and Junior Ministers involved, should be careful to consult and inform Liberal spokesmen in good time not only about impending legislation but also about policy announcements. He would arrange for a reminder to that effect to be circulated.

The Cabinet -

Took note.

ISCLOSURES
O THE PRESS

2. THE PRIME MINISTER said that recently the Press had seemed to be uncommonly well briefed on matters coming before the Cabinet and Cabinet Committees and often on the stands which individual Ministers were likely to take. This was detrimental to Cabinet solidarity and often created a false impression of indecisiveness. In the few weeks since Christmas there had been a series of well-informed reports on collective Ministerial discussions, covering the activities and membership of the Ministerial Sub-Committee on Pay Negotiations, miners' pay, devaluation of the Green Pound, the thermal reactor choice, and the problems of the steel industry. These were all serious issues. He understood the desire of Ministers to influence public opinion but it was not helpful to the Government, and it created extra pressures on Ministers, if the Press were informed of matters under consideration and of the views of individual Ministers on them. He therefore asked Ministers to exercise restraint and to consider carefully the impact which any disclosure to the Press might have on the Government's standing generally.

The Cabinet -

Took note of the Prime Minister's statement.

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3. THE FOREIGN AND COMMONWEALTH SECRETARY said that Premier Price of Belize was torn between the chance of securing independence and the political difficulty of making any cession of territory. His Government could not publicly admit that they would be prepared to endorse any proposal to cede territory. Privately, however, Mr Price would like us to bring his country to early independence on the basis that the settlement would be put to the vote of the people of Belize without any pressure on them to accept it. If we were able to narrow the gap further with the Guatemalans we might then be able to put the proposals to a referendum. This might well result in their rejection by the people of Belize, after which pressure for independence would subside. The fact was that the Guatemalans had a very weak claim but it had traditionally been backed by the United States. Under President Carter, however, American support for Guatemala had weakened and the Americans were prepared to seek a compromise. We had already pushed the Guatemalans a long way and he hoped at a meeting with the Guatemalan Foreign Minister, Dr Molina, next week to get them to move still further. Privately Mr Price was in favour of a settlement and there was probably some movement in his position. But he was being undermined by the Opposition Party in Belize and this made him unwilling to endorse the sort of package we had in mind, which would include some form of mediation within terms previously agreed, a treaty with Guatemala, aid and independence on the basis of some cession of territory. The assurances in the treaty would be underwritten by the United States as well as by Mexico, Venezuela and, in practice, the rest of the Organisation of American States. A settlement on these lines should enable us to phase out our forces within a year.

THE PRIME MINISTER said that Mr Price was looking for assurances on defence, but the opposition to him was getting stronger and we would need to have regard to our own interests. We should not be seen in the role of appeasers. We were not in a position to provide any security guarantees after independence. We had played an honourable role in trying to find a basis for a settlement and had been largely responsible for the majorities behind the United Nations resolutions in support of Belize. We might find it necessary to take the position in the United Nations that we had done our best to try to bring Belize to independence in accordance with these resolutions and that we could not be held responsible for failure to achieve this. Before accepting definite commitments with regard to Belize the Foreign and Commonwealth Secretary should bring the matter again to the Defence and Overseas Policy Committee and subsequently to the Cabinet.

The Cabinet -

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THE FOREIGN AND COMMONWEALTH SECRETARY said that he would be meeting the leaders of the Patriotic Front in Malta early next week and was likely to be under pressure from them to condemn the negotiations which Mr Smith was conducting on an internal settlement. We had adopted the position that we were aiming at a peaceful settlement which would include a ceasefire. This might be difficult to achieve, but it was at least an honourable position. We should certainly avoid being implicated in Mr Smith's internal negotiations, but he could not condemn these negotiations, as the Patriotic Front wished him to do, because there were elements in them which were based on our own proposals. The position was an uncomfortable one but we would have to live with it for the time being.

THE PRIME MINISTER said that we should measure any internal settlement reached through Mr Smith's negotiations against our six principles. Mr Smith had always succeeded in evading these principles and it would be important to ensure that they were carried out. But if they were, we should not hesitate to say so.

The Cabinet -

2. Took note.

COMMON FISHERIES POLICY

Previous Reference: CM(78) 1st Conclusions, Minute 3

4. The Cabinet had before them a note (CP(78) 8) by the Minister of Agriculture, Fisheries and Food and the Secretary of State for Scotland on the negotiating position we should take in discussions with Community Fisheries Ministers on 27-30 January.

THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD said that the Ministerial Committee on European Questions at their meeting on 25 January had agreed that we should work for a package comprising adequate quotas, some improvement in Community conservation measures with a reserved right to take national measures under certain conditions, ultimate exclusive access to waters within 12 miles of our coast and preferential access to waters between 12 and 50 miles. However there was no immediate prospect of a definitive overall settlement. The Commission saw a need for further discussions with ourselves and the Germans over the arrangements for preferential access and with the French over the definition and phasing out of historic rights within 12 miles. Meanwhile the Germans had sought to withhold their agreement to the devaluation of the Green Pound pending progress in the Ministerial discussions on fish: his response had been that he would be unwilling to participate in those discussions without an assurance of German acquiescence in the devaluation.

In discussion of the substance of our negotiating position it was pointed out that the Ministerial Committee had considered that our need for access preference between 12 and 50 miles might best be secured on the basis of the preferential quota we expected to obtain. The package as a whole was likely to be more favourable for inshore than for deep-sea fishermen. We should resist German pressure for an early settlement on their own terms, but contacts with Dr von Dohnanyi, Minister of State in the Federal Ministry of Foreign Affairs, should make it possible to resolve the link with the Green Pound so that we could participate in the further negotiations on fisheries.

In further discussion it was pointed out that our requirements would not be easy to secure and that even if we were successful the settlement might get a hostile reception from the industry and be defeated in Parliament. Preliminary consultation with the Liberals had confirmed that it would be extremely difficult to secure their support. It should be clear to our partners from experience over the devaluation of the Green Pound that we could not accept a settlement which would not be saleable to Parliament. It might become necessary to explain our difficulty to them at a level higher than that of Fishery Ministers. But our partners were showing recognition of our political needs and had moved a considerable way to meet us on quotas. Meanwhile we should work to convince the industry and Parliament of the need for an early settlement on reasonable terms that would avoid a damaging confrontation with the Community.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were content, subject to the points made in discussion, with the negotiating position approved by the Ministerial Committee on European Questions. We should not reach a settlement that would not be accepted by Parliament. The Chief Whip, and if possible the Lord President of the Council, should attend the next meeting of the Committee on fisheries so that Parliamentary considerations could be taken fully into account.

The Cabinet -

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

IL TANKER
RIVERS

5. THE HOME SECRETARY said that all the indications now were that there would be an overtime ban starting on 1 February rather than a strike. Contingency planning had therefore gone ahead on this basis. The oil companies expected to be able to deal with the situation by extending the timing of deliveries by about 30 per cent. So as to ensure that services essential to the life of the community suffered minimum disruption, the companies would be provided with a list of priority users for whom special arrangements should be made. Apart from this, the Government would not take any direct part in allocating supplies in the early stages of an overtime ban. If, however, the ban was prolonged and serious shortages developed, the Government would need to act to reduce the demands for oil and various measures were in hand for this purpose. Any more serious deterioration of the situation would require measures on lines similar to those worked out for a full scale strike, including the requisitioning of tankers and the use of Servicemen to deliver fuel for essential supplies and services. Plans were in preparation for this possible contingency but he would of course consult his colleagues first if there were any question of their being needed.

THE SECRETARY OF STATE FOR EMPLOYMENT said that, with the Secretary of State for Transport, he had met the National Officer of the Transport and General Workers Union (TGWU) Mr Ashwell, and the Shell shop stewards on the previous day. Mr Ashwell had reiterated that the company's proposals were not acceptable and had pressed for consideration of the Union's demands for consolidating existing supplements of £6.15 and then adding 10 per cent of last year's average earnings to the basic rate. Mr Ashwell had said that, if this proposal was accepted, the Union would not ask to work overtime, although they would agree to do so at the company's request. He had held out no hope of being able to meet Mr Ashwell's demands and had asked him to go away and think further about the possibility of a deal based on increased productivity. It seemed likely that when the Shell shop stewards met again on 30 January they would decide on an overtime ban.

THE SECRETARY OF STATE FOR TRANSPORT said that it now seemed inevitable that from 1 February all the major companies would be faced with industrial action of some kind. This would probably take the form of a ragged overtime ban, and it was not clear how much support it would get. No-one wanted a strike and this could not be regarded as an immediate danger since any decision to call one would have to be taken at the national level of the TGWU. He had spoken to Mr Len Murray and emphasised the consequences for industry of an overtime ban. From the time it started there was little doubt that all concerned would be looking for a way out, especially as the drivers would be losing one-third

of their normal gross pay. Texaco were already saying that it would be necessary to think again by about the third week in February. The oil companies believed they could settle on a basis which would provide around a 12 or 13 per cent increase but it had been made clear to them that this would not be consistent with the guidelines.

In discussion it was pointed out that if Servicemen were to be used it would take 17 days from the start before the whole 9,500 men were in action. Half of these would come from Germany and according to present rules, would lose their Local Overseas Allowance, which would cause hardship and resentment. This was being pursued separately. It would also be necessary to ensure that the Services were not put in a position where they appeared to be strike breaking. They would do all that was required in relation to essential services but we would need to scrutinise the list of services carefully to ensure that they really were essential.

In further discussion it was suggested that in the case of an overtime ban it would be important not to give the impression that this involved a Government confrontation with the Union. We should leave it to the companies to take the lead in publicising the need for economies in the use of fuel, but the Government should be prepared to support exhortations of this kind. We should leave the public in no doubt that if the worst came to the worst, the Government would do what was necessary and we should stress the importance of a settlement which was within the pay guidelines. The point should be made that the industrial action was damaging not only to the country and to industry, but also to the drivers themselves and that we hoped commonsense would prevail.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet took note of the probable course of events and the contingency measures proposed to meet it. Contingency plans should be completed as soon as possible so that, should the situation deteriorate, the Government would be in a position to take emergency action at short notice if necessary. The outstanding points relating to priorities for supplies to essential services should be settled in the appropriate committee. They agreed with the general line for publicity which had been proposed.

The Cabinet -

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

CIAL
PLOYMENT
ASURES

6. The Cabinet considered memoranda by the Secretary of State for Employment and the Secretary of State for Education and Science and Paymaster General (CP(78) 6 and CP(78) 9) about the extension of special employment measures.

THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE AND PAYMASTER GENERAL said that the Ministerial Group on Unemployment Among Young People (GEN 27) had considered the need for continuing special employment measures when the existing Temporary Employment Subsidy (TES), the Job Release Scheme (JRS) and the Small Firms Employment Subsidy Scheme (SFES) ran out at the end of April. GEN 27 had agreed that these measures should be continued for a further year though they wished to consider further what additional measures might also be taken. The TES was by far the largest of the present measures, covering 186,000 jobs at December 1977. Extension of TES required the approval of the European Economic Community (EEC) Commission. Formal objections to the scheme had been made to the Commission by the Danes and the Irish. The Commission considered that, particularly in the textile, clothing and footwear industries, TES created a distortion of trade and unfair competition. They were pressing hard for reductions in the impact of TES in those industries. The Commission required the Government's proposals for extending TES to reach them by the end of this month. GEN 27 had taken the view that it was best to attempt to reach a negotiated settlement with the Commission rather than to resist any changes at all. The options appeared to be either simply to reduce the impact of TES in the textile, clothing and footwear industries or to attempt to offset this reduction by new measures such as a short-time working compensation scheme. She proposed that GEN 27 should consider on Monday 30 January the Government's detailed proposals. Further discussion with the Commission might be needed before then. As regards the SFES this was at present restricted to the Special Development Areas and to firms employing up to 50 people. The majority of GEN 27 wished to see the scheme extended to firms employing up to 200 people in Development Areas and Inner City Partnership Areas. The Secretary of State for Employment wished to extend the scheme to the country as a whole. As regards JRS the majority of GEN 27 wished to see it extended from Assisted Areas to the country generally and to see the weekly payments increased from £26.50 to a figure around £28-£30. They were opposed to the Secretary of State for Employment's proposal to increase the eligibility to two years before retirement and to increase the allowance to £40 per week tax free. The gross cost of the GEN 27 proposals in the next financial year would be £144 million. The total effect on the register of all measures to reduce unemployment including the GEN 27 proposals by March 1979 would be in the order of 283,000, an increase of 23,000 on present levels. If the impact of TES were reduced the package would need to be reconsidered. The Group would then be sympathetic to extending SFES nationally and other measures might also be necessary. She recognised the need for an early announcement by the Government but it was not possible to this stage to make a comprehensive statement.

THE SECRETARY OF STATE FOR EMPLOYMENT said that the employment prospects this year was gloomy and that the measures he proposed, which would reduce the unemployment register by about 110,000, had to be compared with the increase in the labour force next year of around 170,000. He had considered how far the industrial strategy might help to reduce unemployment but on the basis of the forty Sector Working Party's reports it did not look as though there would be any net gain in employment. Reflation would help but he estimated that it cost 10 times as much to get extra jobs through reflation than through the special measure and the latter acted much more quickly. He thought it essential accordingly to go for as large a package as possible. On TES his soundings of the Commission had made it clear that they would expect some explicit changes to reduce its impact in the textiles, clothing and footwear industries, and also that they would wish to examine any new scheme brought forward to offset any reductions in TES. He proposed to notify the Commission that we wanted to extend TES for a further year, that we were prepared to make some procedural changes from April and to modify its application to the textiles, clothing and footwear industries from July when we proposed to introduce a short-time working compensation scheme for those industries, which should produce the same register effect as continuing TES unchanged. The new compensation scheme would require a short Bill and he had already discussed this with the Lord President of the Council. Once we had notified our proposals to the Commission we could not expect that they would remain unpublicised and he thought it right that a statement of the Government's intentions should be made to Parliament by the end of the month along the lines of the draft announcement annexed to his paper.

In discussion of the general employment outlook it was suggested that the prospects were less gloomy than had been suggested. There had been an increase in employment last year of about 100,000 and improved growth could be expected this year. Special employment measures were needed but it had to be recognised that they tended to blunt the effect of reflationary measures.

In discussion on TES it was argued that if the forthcoming negotiations with the Commission on TES were carefully handled they could lead to a satisfactory outcome. This could however be prejudiced if the Government adopted too rigid an approach. It would be necessary to show some understanding of criticisms on TES and to make clear our willingness to look at alternatives, since if we could not get the approval of the Commission or the Council of Ministers to extending the schemes beyond the end of March then action under the extended scheme would be unlawful under English domestic law. It was suggested that if reduction in the scope of TES were to be made in the textiles, clothing or footwear industries then these should not apply in Northern Ireland given the special employment problems of the Province and the importance of the textile industry there; and also

that if concessions had to be made on the application of TES it would be better to apply these to the clothing rather than the textile industry. In the clothing industry many firms claimed TES simply because their competitors had done so rather than because they would make redundancies. In textiles many of the firms who had received TES would cease to be eligible when their present support ran out and it was not clear whether these firms would be assisted by the short-time working compensation scheme.

In discussion on SFES it was argued in favour of extending the scheme to the country as a whole that this would increase the effect on the register to 23,000 as against 4,750 if it were simply extended to the Development Areas. It would still be possible to give a preference to Development Areas and Inner City Partnership Authorities by paying at a higher rate in those areas. Expansion would also help the Government in their talks with the TUC about job expansion subsidies. No trouble from the EEC Commission need be expected as they were favourably disposed towards job expansion schemes. Against this it was argued that the SFES was not cost effective and tended to subsidise people who would be employed in any case. Public money was being wasted on this scheme and on the other special employment measures which could be put to more effective use. Rather than extend SFES to the country as a whole, it might be better to prolong the period for which payments were made. In the field of employment measures generally it would be worthwhile considering whether further assistance might be given to the Development Commission and its a gency, the Council for Small Industries in Rural Areas (COSIRA) to help with problems of rural unemployment.

In discussion of the JRS it was argued that this was the only special employment measure which operated on labour supply and that as the scheme only paid out where a registered unemployed person took the job that had been released there was always a saving of unemployment benefit. Pressures were developing for action on labour supply through, for example, the introduction of a 35-hour or 4 day week and extending the scope of JRS provided a defensible response. Other EEC countries were using schemes of this kind. Experience with the scheme in Assisted Areas so far had suggested that there would be benefit from extending it nationally but that the present level of payment was too low. Evidence suggested that the critical level in attracting applicants was around £38 and a proposal to increase the weekly payment to £40 tax free would greatly increase the register effect of the scheme. Criticism had been made that it was a tax free allowance but unemployment benefits were tax free and the scheme entailed no more than swapping one tax free benefit for another. There would be enormous complications if the benefits were to be taxable. Against this it was argued that, although there was no objection to moving the scheme onto a national basis, £40 a week tax free was too high in relation to other benefits and in relation to the taxed income of the low paid. If people were to be eligible under the scheme 2 years before retirement legislation would be necessary to keep the allowance tax

free and this could give rise to problems. A nationally based scheme operating two years before retirement might be seen as an indication of the Government's willingness to move on a lowering of the retirement age generally. Many who might benefit under the scheme were likely to be occupational pensioners who would not need the money.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet were agreed that TES, SFES and JRS should be continued for a further year and that work should go ahead on the preparation of a short-time working compension scheme for application in the textile, clothing and footwear industries. The Secretary of State for Employment should put his legislative proposals for such a scheme to Legislation Committee as soon as possible. An announcement of the Government's intentions could be made by the Secretary of State for Employment in the debate on Monday 30 January. This would have to be in general terms at this stage and care should be taken to avoid giving any impression to the EEC Commission that we had decided to adopt a rigid position on TES. The Secretary of State for Employment should circulate to his colleagues a draft of what he proposed to say. They approved the approach which he had outlined for negotiations with the Commission on TES: GEN 27 should examine at their meeting on 30 January the terms of the notification to the Commission about the Government's intentions. If serious problems arose in the negotiations the Secretary of State should bring the matter back for his colleagues to consider. On SFES the Cabinet agreed that it should be extended to include all Assisted Areas and Inner City Partnership Authorities. Further consideration could be given to extending it nationally in the light of negotiations with the Commission on TES. On JRS they agreed that it should be extended nationally but on the present basis of eligibility. They had reached no firm view on the size of the increase in weekly payments which should be made; this needed further consideration taking into account the level of other benefits and other points made in discussion. The Secretary of State for Education and Science and Paymaster General should arrange for GEN 27 to bring forward fresh proposals on this point, and to consider any additional proposals including the suggestion that the Development Commission and its Scottish and Welsh equivalents might have an enhanced role in relieving unemployment.

The Cabinet -

Took note, with approval, of the summing up of their discussion by the Prime Minister and invited the Secretary of State for Employment and the Secretary of State for Education and Science and Paymaster General to be guided accordingly.

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7. The Cabinet had before it a note by the Secretary of the Cabinet (CP(78) 7) covering a draft White Paper on the benefits of North Sea oil, prepared in the Cabinet Office and incorporating a number of amendments made by the Policy Unit.

THE PRIME MINISTER said he was grateful to the authors of the present draft for a version which focussed very clearly the issues on which the Cabinet should now concentrate.

The Cabinet considered the document section by section. The following main points were made in discussion -

i. There should be a section early in the paper taking credit for the Government's actions in making the resources of the North Sea available to the British people - through effective depletion policy, state participation, the imposition of a suitable fiscal regime, and the encouragement of technology. The nature of the technical achievement should be emphasised to avoid the impression that North Sea oil was a totally uncovenanted benefit.

ii. The introduction should also bring out the reasons for the long decline in Britain's industrial performance and the steps which have been taken already, particularly as part of the industrial strategy, to arrest it. The object was to emerge after the period of North Sea oil with a stronger economic base. This section should also explain the nature of the world slump and emphasise that the problems of the last few years had not been purely a British balance of payments crisis.

iii. The size of the additional resources described in paragraph 13 could be expressed more clearly and placed in its proper context. Illustrative tables would help here. The existing benefits of gas as well as the potential benefits of oil should be included. The object should however be to avoid excessive euphoria and any impression that North Sea oil was a solution to all our problems.

iv. The draft should not be an occasion for announcing specific policy changes which the Government has not yet taken. For example, the last sentence of paragraph 8 should be omitted.

v. There should be greater emphasis on regional policy, to which the Government had given great importance in its original 1974 proposals for the control of North Sea oil. All references to the regions should be drafted to include Scotland, Wales and Northern Ireland.

vi. The references to the balance of payments should carefully avoid taking a position on the appreciation of sterling, but should indicate that one of the consequences of North Sea oil would be to make it more difficult to compensate for the loss of competitiveness by depreciation.

vii. The first half of paragraph 20 on "The Use of North Sea Revenues to Assist National Recovery" was a crucial passage. It needed to be rewritten so as to begin with a general statement that the objective was to use a temporary increment of resources to produce a lasting reconstruction of the economy rather than a short term spending spree. It should go on to mention how the North Sea oil revenues could contribute to a number of different and complementary ways of achieving this, including industrial investment, energy and infrastructure, and the expansion of demand through tax reductions. This should not however be done in a way as to imply an ordered list of priorities.

viii. The references to debt repayment in paragraph 20 would be redrafted by the Chancellor of the Exchequer in the light of an announcement which he proposed to make that afternoon.

ix. The section on investment in industry should avoid the impression that North Sea revenues would be devoted to maintaining existing unsuccessful industries, and should not over-emphasise direct public investment.

x. The passages on energy should stress the large scale of the resources which need to be invested in existing nuclear and conventional forms of energy, and put less emphasis on the non-conventional renewable forms.

xi. The stress laid on further investment in the modernisation of industry would inevitably arouse concern about the loss of jobs, and the draft should include references to the creation of further employment in the service sector, including the public services.

xii. The references to tax reductions in paragraphs 31 and 32 were too sweeping. The Government were completely opposed to the Opposition suggestion that the whole benefit of North Sea oil revenues should be taken up in reductions in personal taxation. But at the same time, reductions in taxation had a part to play in restoring incentives and in expanding demand; the breathing space offered by North Sea oil on the balance of payments made this possible.

xiii. The section on public investment and the public services should stress the objectives of policy in these areas rather than on the particular services which might be expanded as additional resources became available.

xiv. A very small majority of the Cabinet were at present in favour of the creation of a North Sea Development Fund, and therefore preferred the first version of paragraphs 41 and 42. However, the Cabinet had never had an opportunity to discuss the mechanism of such a fund in detail and there were a number of technical problems which needed resolution before a final decision could be taken.

THE PRIME MINISTER, summing up the discussion, said that he would arrange for the draft White Paper to be revised in the light of their discussion. It would then be considered further at an early meeting of the Cabinet. Any Ministers who had further minor detailed points of drafting to suggest should send these to him in writing as soon as possible. The Secretary of the Cabinet should arrange for the preparation of a separate note showing how a North Sea Oil Development Fund could be operated assuming Ministers decided that there should be one.

The Cabinet -

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

Cabinet Office

26 January 1978

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CM(78) 3rd
Conclusions

COPY NO 75

CABINET

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

THURSDAY 2 FEBRUARY 1978

at 9.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

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

The Rt Hon David Owen MP
Secretary of State for Foreign and Commonwealth Affairs

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 David Ennals MP
Secretary of State for Social Services
(Items 2 - 5)

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon Lord Peart
Lord Privy Seal

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

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

ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt
Mr W I McIndoe (Item 1)
Sir Clive Rose (Items 2-4)
Mr P Le Cheminant (Item 5)
Mr A D Gordon-Brown (Item 1)
Mr A K H Atkinson (Items 2 and 3)
Mr P Mountfield (Item 5)
Mr C A Whitmore (Item 4)

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PARLIAMENTARY AFFAIRS

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

FOREIGN AFFAIRS

Rhodesia

Previous Reference: CM(78) 2nd Conclusions, Minute 3

2. THE FOREIGN AND COMMONWEALTH SECRETARY said that the recent meeting in Malta had been the first occasion on which there had been an opportunity for serious discussion with the Patriotic Front. The fact that a settlement in 1978 now seemed possible, coupled with the possibility of an internal settlement and pressure from the Front Line Presidents, had made them more ready to discuss the United States/United Kingdom proposals. The discussions had shown that there were still wide gaps between our position and theirs. There was nevertheless a chance that they might eventually be brought together with the internal nationalists. Bishop Muzorewa had recently written asking for a meeting in London and expressing concern about future arrangements for the army. It was relevant that both Bishop Muzorewa and Mr Mugabe were Shonas, and this could provide a link between them. We should not condemn the negotiation for an internal settlement, but we could not endorse it particularly since we must avoid alienating opinion in the rest of Black Africa. Bishop Muzorewa might in any event seek to delay a settlement. If eventually elections took place in a peaceful atmosphere and revealed real support for Bishop Muzorewa and the Reverend N Sithole, we might then have to recognise the outcome. Meanwhile we should stand firm on our aim of a negotiated settlement and ceasefire. We should no doubt be subject to criticism and domestic political considerations were involved, but we could expect general support if we concentrated on our objective of achieving a peaceful solution.

Namibia

Previous Reference: CM(73) 1st Conclusions, Minute 2

THE FOREIGN AND COMMONWEALTH SECRETARY said that together with the Foreign Ministers of Canada, France, Germany and the United States, he was due to meet the South African Foreign Minister and also representatives of the South West Africa People's Organisation (SWAPO) in New York on 10 and 11 February, to discuss the possibilities of a settlement in Namibia. The prospects would depend on whether the South Africans and SWAPO were prepared to make the necessary compromises. The South Africans accepted a United Nations role, including a peacekeeping force, and also the arrangements for elections. They were resisting demands to withdraw all their troops before elections took place and wanted a smaller peacekeeping force than had been proposed. But SWAPO were being uncompromising and if the negotiations should fail responsibility would probably not be thought to lie with South Africa. A solution on Namibia would have great influence on Rhodesia and also have a useful stabilising effect in Southern Africa. It was also important for us to maintain access to the uranium supplies from the Rossing Mine in Namibia.

Middle East

Previous Reference: CM(78) 1st Conclusions, Minute 2

THE PRIME MINISTER said that no important decisions were likely to be taken during President Sadat's forthcoming visit to the United States. The Americans realised that President Sadat was under great pressure and their main objective was to prevent him from doing anything impetuous. He had been asked by President Carter for his advice on what should be done next and in reply had emphasised the importance of urging President Sadat to continue to work for agreement on a Statement of Principles. He had also suggested that there would be advantage in an Arab Summit, which could perhaps be called by the Saudi Arabians. He feared that Prime Minister Begin of Israel was going back on his earlier plans, after the initial euphoria in December. He would be seeing President Sadat when he passed through London on 9 February.

Economic Summit

THE PRIME MINISTER said that he had had a letter from the Federal German Chancellor, Herr Schmidt, proposing that the next economic Summit should take place in mid-July, provided the preparatory work showed that it would yield useful results. He had agreed, stressing that in his view a Summit at about this time was very desirable to discuss in particular the slow rate of growth, the political consequences of continued high unemployment and the instability of the money markets. The Secretary of the Cabinet would once again be his representative in the preparations for the Summit.

The Cabinet -

Took note.

COMMUNITY AFFAIRS

Common Fisheries Policy

Previous Reference: CM(78) 2nd Conclusions, Minute 4

3. THE MINISTER OF AGRICULTURE, FISHERIES AND FOOD reported that in the absence of agreement on revision of the common fisheries policy (CFP) at the Fisheries Council on 31 January, we would for the time being apply existing Community and national conservation measures under our own powers; and would consider urgently whether further non-discriminatory national measures should be taken. The main obstacle to agreement on the revision of the CFP was German opposition to our claim for a preferential share of future growth in the fisheries in our coastal waters. We hoped to secure in bilateral discussions with the Commission and the Germans some form of coastal preference which would assure the industry of the opportunity to catch the quotas now offered to us.

THE PRIME MINISTER, summing up a brief discussion, said that the Ministerial Committee on European Questions should consider further our tactics in the Community and in Parliament. They should also consider any proposal for further national conservation measures.

The Cabinet -

1. Took note.

Temporary Employment Subsidy

Previous Reference: CM(78) 2nd Conclusions, Minute 6

THE PRIME MINISTER said that negotiations with the Commission on the Temporary Employment Subsidy had so far proceeded relatively satisfactorily. But further political persuasion might ultimately be needed to convince the Commission of the political necessity of temporary measures to maintain employment.

In discussion it was suggested that the Commission should be discouraged from intervening directly with industry especially in matters which Ministers might themselves be discussing with industry. There was also a need to consider our general attitude to Commission criticism of our state aids. On the other hand it was pointed out that specific powers and duties were entrusted to the Commission under the Treaties. The Ministerial Committee on European Questions (CQM) had given careful consideration to the best means of safeguarding our interests and had taken the view that we should argue each case on its merits.

THE PRIME MINISTER, summing up a brief discussion, said that CQM should continue to maintain oversight of our relations with the Commission and any Minister who was concerned about an individual case should raise it in CQM.

The Cabinet -

2. Took note.

STATEMENT ON THE DEFENCE ESTIMATES 1978

4. The Cabinet had before them a note by the Secretary of State for Defence (CP(78) 11) to which was attached a draft of the statement on the Defence Estimates 1978.

THE SECRETARY OF STATE FOR DEFENCE said that the first chapter of the draft statement attached to his note was an account of the Government's defence policy and the remaining chapters reviewed various aspects of the defence programme. Chapter I followed the pattern of the 1977 Defence White Paper by beginning with a section on detente and disarmament and continuing with passages on the capability of the Warsaw Pact and on the defence effort of the North Atlantic Treaty Organisation (NATO), including the United Kingdom's contribution. The Defence and Oversea Policy Committee (DOP) had considered the balance of Chapter I and were generally satisfied with it. Paragraph 121 of the draft statement had been amended in the light of DOP's discussion to include a reference to Soviet activities in Africa, and the same paragraph now made clear that French forces were excluded from Figures 3 and 4 which showed the current balance of ready forces in the Eastern Atlantic and in Central Europe. The increase of 1,900 in the Army's manpower referred to in paragraph 132 had been agreed by DOP and, subject to the Cabinet's approval, he proposed to announce it shortly in Parliament. The increases in the defence budget outlined in paragraph 145 of the draft statement had been warmly welcomed in NATO and in particular by the United States. On the other hand, there had been criticism of the new levels of defence expenditure from a number of Government supporters, though this had perhaps not been as strong as had been anticipated. These attacks would no doubt be renewed in the defence debate, but the main issue then was likely to be the pay of the Armed Forces.

In discussion of Chapter I of the draft statement the following points were made -

a. Although there had been reasonable progress in the negotiations on a Comprehensive Test Ban Treaty, it was not certain that it would be possible to conclude an agreement by the summer. The United States Government might prefer to give priority to a Strategic Arms Limitation agreement.

b. It might be appropriate for the Prime Minister to attend the United Nations Special Session on Disarmament. We were taking an active part in the preparatory work for the Session and, in agreement with our allies, were putting forward proposals of our own.

c. The timescale of 1968-77 used in Figures 1 and 2 appeared arbitrary, and a more accurate picture of the growth in Soviet strength might be given by showing the increase in their capability between 1976 and 1977. Moreover, the charts did not include information for NATO forces, and it was therefore impossible to arrive at a comparison. Against this, it was argued that changes in defence capabilities took place relatively slowly because of the long time needed to develop and produce modern equipment, and it was therefore possible to illustrate trends accurately only if a period of several years was used.

d. The charts at Figures 3 and 4 had given rise to problems in the past and they had accordingly been left out of the 1977 Defence White Paper. Their omission had, however, been criticised by the Select Committee on Expenditure who had asked for them to be restored in the 1978 White Paper. French forces had been excluded from the NATO figures because France was not part of the integrated military structure of the Alliance. As against this, it was pointed out that France remained a member of the Alliance and that there was no doubt that in the event of a conflict with the Warsaw Pact her forces would fight alongside those of the rest of NATO. Her forces were thus part of the balance and to leave them out made the charts misleading. It was important not to exaggerate the weakness of the Alliance. If there were political objections to including French forces in the total NATO figures, they might be shown in a separate category. The omission of Hungarian forces from the figures for the Warsaw Pact also distorted the picture which the charts sought to convey. It was arguable that a more satisfactory way of presenting the balance of forces might be to drop the charts in their present form, expand the text of Chapter I as necessary and set out the figures in an annex.

e. The increases in the defence budget would have a very valuable effect on our relations with the United States not only in the defence field but also more generally. It was hoped to be able to make use in the forthcoming defence debate of comparisons of per capita defence expenditure based on purchasing power parities which would show that our defence effort was much closer to that of the Federal Republic of Germany than appeared from Figure 5, which was based on United States dollars.

f. The section on commitments outside NATO might come more appropriately after paragraph 141.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet approved the text of the statement on the Defence Estimates 1978 subject to the points made in discussion and agreed that it should be published on 15 February. The Secretary of State for Defence should announce the increase in Army manpower as he proposed. There was no doubt about the preponderance of military strength enjoyed by the Warsaw Pact, but in their present form the charts in Chapter I of the statement overstated that preponderance. It was particularly important that the effect of French forces on the balance should be plainly brought out. The Secretary of State for Defence should consider how best to present as accurate a comparison as possible of the forces of the North Atlantic Alliance and of the Warsaw Pact and should make appropriate changes to Chapter I.

The Cabinet -

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

THE ECONOMIC PROSPECT AND POLICIES

Previous Reference: CM(77) 41st Conclusions

5. The Cabinet had before them a memorandum by the Chancellor of the Exchequer (CP(78) 12) on the economic prospect and policies, setting out the background to the spring Budget; a memorandum by the Secretary of State for Energy (CP(77) 117) describing a possible national development programme; a memorandum by the Secretary of State for Social Services and the Minister for Social Security (CP(78) 10) setting out the case for reflation and an increase in public expenditure; and a joint memorandum (CP(78) 5) by the Chancellor of the Exchequer and the Secretary of State for Employment on future pay policy, together with minutes from the Minister for Social Security dated 31 January and from the Secretary of State for Employment dated 1 February.

THE CHANCELLOR OF THE EXCHEQUER said that it would be useful at this stage to have a very general discussion about economic strategy as the background to further talks about pay and the Budget. Although he could not yet give a detailed forecast of the prospects for next year, several of the critical elements would become clearer in the next few weeks. But it was already clear that there would be room for a substantial stimulus in the Budget. The Trades Union Congress (TUC) wanted £3 billion, and the Confederation of British Industry (CBI) wanted £2 billion; but there was general agreement that it would be a mistake to give a stimulus which could not be met from increased domestic output. Otherwise, reflation would merely lead to inflation, and not to new jobs. It would be a mistake to exceed the public expenditure totals set out in the newly-published White Paper, so additional expenditure must come from the Contingency Reserve. Taking account of reduced shortfall, expenditure in 1978-79 would be 4-5 per cent higher than in 1977-78 and would increase as a proportion of Gross Domestic Product (GDP). Inflation should remain comfortably within single figures throughout 1978, but its course in 1979 depended on improvements in productivity. The growth rate of 3.5 per cent in GDP forecast in October would now only be achieved through a reflationary stimulus. The earnings outturn would probably be a little over 10 per cent but unless the pay policy collapsed, the final result should be within the 12-14 per cent range. But even this added seriously to inflation and to industrial costs; taken together with the appreciation of sterling since the autumn, our competitiveness continued to fall. In addition, the growth in world trade was likely to be smaller than we had expected, despite our efforts to achieve concerted world reflation. Overshadowing all this was the threat of a collapse in the international monetary system if the dollar continued to weaken. All this pointed to the need for a further Economic Summit, possibly in July. There was little the Government could do by way of intervention to affect the course of the exchange rate, and the TUC now recognised that depreciation would not necessarily save jobs. There were some encouraging signs. Investment and sales were probably rising faster than the statistics

indicated. Industrial investment other than in steel had risen by 13-15 per cent in the past year and the CBI thought this would continue. Retail sales were beginning to move ahead fast as the October tax cuts worked through and delayed wage settlements were agreed. As inventories of stocks were reduced, this should work through to investment and employment. But there was considerable concealed unemployment and spare capacity in the industry, so the effects on the labour market might not be rapid. Nevertheless there was some reason to think that unemployment might have reached its peak. In that case, 3 per cent growth in GDP should lead to a steady slow fall in unemployment, though postponed to the extent that temporary employment measures had encouraged the hoarding of under-utilised labour. It would not be sensible to quantify these improvements at this stage. The major worry was the loss of price competitiveness, made worse by disruptions in supply. Production might not expand to match the desired stimulus in demand. During the period when North Sea oil would strengthen the balance of payments, it would be harder to offset the rapid relative increase in our wage costs by a depreciating pound. If the exchange rate could not be used as a policy instrument, competitiveness must be increased by other means. The industrial strategy held out the best hope of doing this in the long term, supported by improved labour relations and by a move towards industrial democracy. But this would not lead to a rapid quantum change in productivity. The burden must therefore fall on earnings, and the acquiescence or support of the unions in continued restraint on earnings was essential. This made the case for increased tax relief in the next Budget very strong indeed, both to improve take-home pay and to increase the demand for private sector output (which worked through to employment more rapidly than expansion in the public services) and also to improve incentives and eliminate the poverty trap. There were some signs of support from the unions for a continued pay policy on these lines provided that the recent improvement in living standards (already reflected in the Government's standing in public opinion polls) could be continued.

In discussion it was argued that the room for manoeuvre was less than Ministers had expected. They had hoped that the arrival of North Sea oil in substantial quantities in 1978 would remove the balance of payments constraint. It was no longer safe to assume this. North Sea oil already met half our needs and over-stimulation of the economy could easily cast doubts on our ability to maintain a balance of payments surplus. Moreover, in so far as the exchange rate remained high, at least in the short term, it could have damaging effects on competitivity. The industrial strategy would not produce any significant improvement in competitivity in the short term. The prospects of an improvement in world trade were deteriorating. The risks of a crisis in the international monetary system were great. In this situation, it would be economically unjustifiable and politically

dangerous to take risks in the Budget, particularly if that involved risk to the balance of payments surplus. A cautious approach to the Budget was therefore essential.

On the other hand it was argued that there were great uncertainties in all forecasting, and that in the absence of any firm figures at this stage a common-sense approach was needed. In 1976, the control of inflation had been given top priority, and as a result, unnecessarily severe cuts in public services had been made. A tight wages policy, carried out with loyalty rather than conviction by the trade unions, coupled with unacceptably high levels of unemployment, had not improved productivity. It was too late to change the strategy before the Election, but a fresh approach would influence the co-operation of the trade union movement. In particular, improvements in public services would help to create more jobs. The British economy should no longer be exposed to uncontrollable international monetary movements. A different approach, departing from previous Treasury orthodoxy, would help to get the economy moving again.

In further discussion it was argued that the employment situation was now so serious that the Budget strategy should err on the side of expansion, though without going to the brink which might bring disaster. The TUC had probably achieved the right balance in demanding a £3 billion stimulus, divided between £2 billion on taxation and £1 billion on public expenditure, including transfer payments. Improved child benefits would have an important part to play in serving as an incentive, benefiting the lower-paid family man in work, and increasing demand. The employment measures already adopted, while useful, were not enough and some further reflation was essential. A growth rate of 3 per cent would probably not be sufficient to reduce unemployment, because of the considerable under-employment concealed in the present statistics. The improvement in the balance of payments, together with the reduction in the rate of inflation, gave the opportunity for a substantial stimulus. The effect on the balance of payments surplus need not be disastrous, and if a smaller surplus led to the depreciation of the pound, this would help with competitivity. But if the balance of payments were seen as a constraint, some forms of additional public expenditure, particularly on construction, would be preferable to an increase in consumer expenditure, because they would have less effect on imports.

THE PRIME MINISTER said that there was inadequate time left for the extensive discussion which the Cabinet wished to have of its economic strategy and of the related questions of pay policy. A meeting devoted to this alone would be desirable and could be held at Chequers on Sunday 19 February. The Chancellor of the Exchequer should consider what further information could be made available at such a meeting,

The Cabinet -

Agreed to resume their discussion on 19 February.

Cabinet Office

2 February 1978

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CM(78) 4th
Conclusions

COPY NO 75

CABINET

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

THURSDAY 9 FEBRUARY 1978

at 11.30 am

PRESENT

The Rt Hon James Callaghan MP
Prime Minister

The Rt Hon Michael Foot MP
Lord President of the Council (Items 1-4)

The Rt Hon Denis Healey MP
Chancellor of the Exchequer

The Rt Hon David Owen MP
Secretary of State for Foreign and Commonwealth Affairs

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

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

The Rt Hon Bruce Millan MP
Secretary of State for Scotland

The Rt Hon Albert Booth MP
Secretary of State for Employment

The Rt Hon Edmund Dell MP
Secretary of State for Trade

The Rt Hon Joel Barnett MP
Chief Secretary, Treasury

The Rt Hon Lord Elwyn-Jones
Lord Chancellor

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 Eric Varley MP
Secretary of State for Industry

The Rt Hon Roy Mason MP
Secretary of State for Northern Ireland

The Rt Hon Fred Mulley MP
Secretary of State for Defence

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

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

ALSO PRESENT

The Rt Hon Michael Cocks MP
Parliamentary Secretary, Treasury

SECRETARIAT

Sir John Hunt	
Mr W I McIndoe	(Items 1 and 2)
Sir Clive Rose	(Item 3)
Mr M D M Franklin	(Item 3)
Mr P Le Cheminant	(Items 4 and 5)
Mr P Mountfield	(Item 4)
Mr D E R Faulkner	(Items 1 and 2)
Mr J C M Walker	(Item 5)

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PARLIAMENTARY AFFAIRS

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

Supply Day Debate: Public Purchasing and the Abuse of Ministerial Power

The Cabinet considered the arrangements for handling the debate on public purchasing and the abuse of Ministerial power which the Opposition had chosen as the subject for the Supply Day debate on Monday, 13 February. The Government's power to include clauses relating to pay policy in Government contracts was not in doubt. The only ground for criticism was that they necessarily referred to pay policy as it operated at the time, and there were no juridical means of determing whether a settlement was within or outside the policy. There was however no practical alternative to this situation and, despite recent criticism by the media, there was widespread recognition by the public generally and by some firms that the Government could not apply a strict pay policy in the public sector without taking corresponding action in the private sector. While standing firmly on its position the Government should however avoid appearing not to treat the matter as one of seriousness, about which concern extended to some sections of the trade union movement and the Parliamentary Labour Party.

THE PRIME MINISTER, summing up the discussion, said that the Cabinet agreed that the Government should not be deflected by the recent tone of the media from pursuing their present policies and should take a robust attitude in the debate, while treating the matter as a serious one. The overriding need was to break inflation for which the Government's present policies were essential and in which they had the support of public opinion.

The Cabinet -

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

cotland Bill

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THE LORD PRESIDENT OF THE COUNCIL said that an amendment had been tabled to remove the requirement, inserted by Mr George Cunningham's earlier amendment, that the provisions of the Bill should be supported in a referendum by not less than 40 per cent of the persons entitled to vote; and there were other amendments designed to reduce the proportion from 40 per cent to 33 per cent or one-third. He proposed that the Government should support the amendment to remove the requirement altogether. If, as might happen, the amendment were defeated, the Government would support the amendment reducing the figure to 33 per cent. If this were carried, the situation, though unsatisfactory, would be tolerable.