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CABINET

EUROPE

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

The way things are developing in Europe demands our attention. The European Free Trade Association (EFTA) is back on the rails, but the European Economic Community (EEC) is becoming a power unit of the kind that EFTA can never become. Our present attitude and policies are not enough to prevent General de Gaulle achieving his object of making this unit into a closed shop.

2. If this happens, we face the following risks:

(a) The United States will be forced to make deals with the Six, by-passing Britain, as they now look like doing over the Kennedy Round.

(b) The Commonwealth will fix up their own arrangements with the Six, as Nigeria is now trying to do and as, if she succeeds, the East African territories will also try to do, in which case the EEC will inherit our place in a large part of Africa. This is a process which could spread to other areas.

(c) EFTA countries will be under pressure to transfer to the EEC as Austria already is.

(d) The continuance of an integrated Atlantic policy in defence will become increasingly difficult.

3. There can be no question of renewing our application to join the Common Market as things stand. But one day we may wish to, and it is very much to our interest that we should keep the option open. To do so, we must not only follow the right policies ourselves but encourage those powerful elements in the Six which, for all their emotional attachment to the Common Market, mistrust General de Gaulle’s political and defence aims and want us in as a counterweight and guarantee.

4. Most of the things we are doing are in the right direction; it is on the question of encouragement to our friends in the Six
that we need to do more. This is largely a question of presentation.
We must:

(a) Do more to present our policies as a coherent and positive whole;
(b) Give them as "European" a slant as we can, short of suggesting that membership of the EEC is a real practical issue.

5. We should dwell as little as possible on what we cannot do and as much as possible on what we can do. It serves little purpose to reiterate our inability to join the Common Market now. We need not spell out the conditions which we should have wanted in 1963. It is suggested that possibly in public and at any rate in our discussions with European leaders, we should make it clear that, provided our essential (but unspecified) interests are safeguarded, we should ultimately want to join a wider European market with any other members of EFTA who also wanted to go in. We should make it clear too that membership of the Commonwealth and our relationship with the United States are not incompatible with membership of the right sort of Europe: they are complementary policies.

6. By the same token, we should not give the political talks of the Six undue advertisement by emphasising our wish to take part in them. While we should discreetly support Dutch efforts to delay progress and to keep the door open for us, our public line should be simply that talks on the future of Europe among the Six alone and without us make no sense. In particular, defence, especially nuclear defence, is an Atlantic matter.

7. Against a general background on these lines, we should present our policies towards Europe (and such developments of them as may be devised) as a practical, constructive and consistent approach towards the effective working unity of Europe within an Atlantic framework. Some of the ingredients of such a policy are set out in the Annex to this paper.

8. If the line set out above is agreed we must bring it home to our European allies by constant repetition in bilateral exchanges and in international organisations. Given the headway which General de Gaulle is making, this is the time to resume our rightful place on the European stage and set about helping Europe towards a better relationship with the United States within the Atlantic Alliance.

M. S.

Foreign Office,
ANNEX

ELEMENTS OF A PROGRAMME LOOKING TO THE WORKING UNITY OF EUROPE

(a) First and foremost, we should press forward with the Atlantic Nuclear Force. Our purpose in proposing this was not to kill the Multilateral Force but to provide an answer to the real and continuing problem of the relationship of the European non-nuclear Powers to the Atlantic deterrent. The United States, Germany and Britain are the kernel of the Atlantic Alliance; we should of course welcome France if she would come in, which she is not at present willing to do. The first objective is to start multilateral talks, and this should be our overriding task in Bonn.

(b) In the defence field, there are other ways of enhancing Europe’s place in the Atlantic Alliance. For example, a wider European industrial base would help us to achieve a real division of labour within the alliance on arms production, and avoid the present waste of Western resources on competition. Similarly, more unified logistic support for NATO conventional forces in Europe might provide forces equally effective militarily for less men and money. There may be room for British initiative on both these points.

(c) We need not, at this stage, commit ourselves to institutional integration across the whole field of European activities. But we can show our readiness to take part in specified forms of European co-operation, such as:

(i) More effective political consultation in the North Atlantic Treaty Organisation (NATO), the Western European Union (WEU), the Council of Europe and EFTA. This calls for more frequent attendance by Ministers to explain our present policies and consult about future decisions.

(ii) Technical co-operation in the bilateral and multilateral fields, e.g., the Concord and European Conference on Satellite Communications.

(iii) Further development of our bilateral activities including the Joint Economic Committees, Joint Steering Committees on Arms Development and Joint Staff Talks.

(d) We should build up EFTA, not as an end in itself but as a step towards the ultimate wider unity of Europe. We support EFTA, not to divide Europe but to unite it.

(e) Our ultimate vision of Europe should of course include the Eastern European countries too. But we should not over-emphasise this when it antagonises those Atlanticists in Europe on whose support we rely to defeat General de Gaulle’s purposes. Our relations with Communist countries will always be sui generis.
CABINET

LINKS BETWEEN EFTA AND THE EEC

NOTE BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

I attach, at Annex, a memorandum on possible links between the European Free Trade Association and the European Economic Community.

2. This is a limited paper dealing simply with those types of relationship with the Community which, short of full membership, might offer a means of removing the tariff barrier between the two groups. It does not cover the possibilities of straightforward functional co-operation and harmonisation of policy between EFTA and the EEC. In this category comes a vast range of possibilities, e.g., industrial co-operation, joint arms production, space projects (ELDO, ESRO and Satellite Communications), decimal coinage, use of the metric system, patents, industrial and food standards, colour television systems, harmonisation of professional qualifications, customs and immigration procedures.

3. The paper does not purport to be a substantive document on the whole complex of policy in respect of European integration, but illustrates the issues that arise in considering the possibility of links between the two organisations.

M. S.

Foreign Office, S.W.1.
26th March, 1965.
LINKS BETWEEN EFTA AND THE EEC

MEMORANDUM BY THE FOREIGN SECRETARY

EFTA policy

1. The EFTA Communiqué of June 1961 stated “The aim of EFTA has been from the outset not only to create a free market between its members but ultimately also to achieve the economic integration of Europe as a whole in the form of a single European market”. When the United Kingdom applied for membership of the EEC, Denmark and Norway also applied for full membership, Austria, Sweden and Switzerland for association and Portugal for an unspecified relationship. The negotiations did not progress to a point which made it possible to see the shape of eventual agreements. Only Austria has subsequently maintained negotiations for association; the indications are that the Community’s price for a settlement will be virtually complete acceptance of Community policy and severance from EFTA.

2. This note sets out from the United Kingdom point of view possible links with the EEC short of full membership, but does not deal with individual forms of functional co-operation on matters such as patents or industrial standardisation. The section on association with the EEC is directed primarily towards the implications from a British point of view; it is necessary to bear in mind that by itself, far from creating an EEC-EFTA link, it would disrupt EFTA.

Association with the EEC

3. The basis of association. Article 238 of the Treaty of Rome provides that the Community “may conclude with a third country . . . agreements creating an association embodying reciprocal rights and obligations, joint actions and appropriate forms of procedure. Such agreements shall be concluded by the Council by a unanimous decision and after consulting the Assembly”. Association can mean anything from 1 per cent to 99 per cent of full membership. The minimum would be an association such as that which we have with the Coal and Steel Community, i.e., a purely formal and consultative relationship. Apart from the African associates, for whom special arrangements exist, the only countries having a substantive association with the EEC are Turkey and Greece. Both have a special claim for concessions as under-developed countries and do not offer a helpful precedent for the United Kingdom. The Austrian negotiations may be more relevant, but as a neutral, Austria is also in a fundamentally different position from the United Kingdom; even so, it is doubtful whether she will secure association except by taking on virtually all the substantive obligations of full membership.
4. Earlier references to Association for the United Kingdom. On 14th January, 1963, President de Gaulle said “Nothing would prevent the conclusion of an agreement of association between the Common Market and Great Britain, so as to safeguard trade, and nothing equally would prevent the maintenance of close relations between England and France, for example those of science, technology and industry, as of course the two countries have just proved in deciding to construct together the supersonic aircraft Concord”. This was not regarded as a serious offer of association. Shortly afterwards, however, detailed proposals were put forward by Monsieur Spaak and were seriously considered. Formally his plan was an “Interim Convention” designed to lead to full membership, but in practice it is the best indication we have of what association might mean. It provided essentially for an industrial customs union between the United Kingdom and the EEC, with some harmonisation of policy in other fields, but it rapidly became apparent that in order to meet the Dutch and the Italians, some more substantial agricultural provisions would have to be included. EFTA would have been dealt with by letting the United Kingdom apply EFTA rates of duty for two years, while separate negotiations were pursued by the EFTA countries. The institutional arrangement would have been an interim committee with the United Kingdom on one side and the Community on the other. The agricultural difficulties, combined with the tariff preference in favour of the Community and against the Commonwealth which is inherent in a customs union, could have raised some of the main problems of the Brussels negotiations in regard to the Commonwealth and British agriculture. Moreover, there was no reason to suppose that the French Government would have accepted even this arrangement. It was therefore abandoned.

5. Present possibilities and economic implications. The theoretical possibilities are:

(a) An ECSC type of Association. This would be a gesture on the part of the United Kingdom towards the Community. It would involve no real movement by either side and would do no more than perhaps afford a vehicle for discussion of a closer relationship.

(b) Association in the form of an industrial customs union. This would, as with Monsieur Spaak’s proposal, raise the main problems of the Brussels negotiations. The common tariff would have to be applied against the Commonwealth. We should have to undertake over a period of years to effect some harmonisation of agricultural policy with its implications for Commonwealth exports and for British horticulture as well as for the balance of payments and the internal price structure. We should have to make simultaneous arrangements for EFTA or accept the effective break-up of the Association. We should also be pressed by the Community to accept the “economic union” provisions of the Treaty of Rome, e.g., free movement of workers and co-ordination of economic and
commercial policy. In fact in one way or another, we should have most of the substantive obligations of membership. We should, however, lack an effective voice in the running of the Community, since decisions would be taken by the Six and once taken we could not expect to change them in the Council of Association, even though we might be able to stand aside from them.

(c) Association in the form of an industrial free trade area. This would give us the industrial advantages of membership of the Community and would enable us to retain the substance of our Commonwealth and EFTA arrangements. It would need much less internal economic union content and need not raise serious institutional problems either for us or for other members of EFTA. It could in fact give us most of the economic advantages of full membership for the price of letting the Community into the British market for industrial goods. But it would be objectionable to the Community because it would not offer them access to the British agricultural market, it would enable us to obtain the advantage of cheap imports from the Commonwealth and it would not require us to accept the internal economic policies of the Community. It would in fact raise again many of the problems which caused the failure of the 1958 negotiations for a European free trade area. There is no reason to suppose that French policy has changed in its essentials and we could not expect them to agree to an arrangement of this type. Nor indeed would the Commission or other Governments be likely to agree—if anything they would demand rather tougher terms than those proposed by Monsieur Spaak in 1963.

6. Political implications of Association. The European Communities are intended to serve as the foundation for a single powerful group determining the internal development and external policies of Western Europe. Association with that group on any basis which can be foreseen would not place us in a position to exercise a significant influence on its policy. It would be an essentially peripheral relationship appropriate for a country such as Austria, but it would in some respects put the United Kingdom at a peculiar disadvantage since we should sacrifice such independence as we have and should subordinate ourselves effectively to the policies formulated by the Six.

7. Arrangements other than Association. It is possible to conceive of a relationship between the EEC and EFTA on a basis other than that of association of individual EFTA countries with the EEC. The theoretical possibilities are set out below, but in assessing them it is important to bear in mind that even those members of the Community who would support full membership for Britain would be very hesitant about any relationship which offered us the
economic advantages of the market of the Six without our accepting the same obligations as the present members.

(a) The Community joining EFTA. This would suit British interests well. Apart from the problem in terms of the Community's prestige, it would however raise in an acute form the Community's objections to an industrial free trade area (see paragraph 5 (c) above).

(b) An intergovernmental negotiation with the object of removing tariffs on industrial goods throughout Europe. This would in effect be a new industrial free trade area superimposed upon the EEC and EFTA. From the Community's point of view it also would raise the basic difficulties set out in paragraph 5 (c). It is conceivable though unlikely that the Community might accept some halfway house involving a European preferential system, against the rest of the world, either across the board or in terms of specific commodities, but this would conflict with the GATT and it is questionable whether it would be in the British interest to go along with it.

(c) Reduction of tariffs on items principally traded within Europe, the reductions being extended on an m.f.n. basis to other members of GATT. This is a course of action which we may well pursue if the Kennedy Round breaks down. It could be accompanied if the United States wished, by a parallel negotiation with them. It could be used also to supplement the results of a successful Kennedy Round. It could give us trading advantage but although it would not be without political significance, it would be no more than a first step in the solution of our European problem.

8. The German proposals. In November 1964 the German Government put forward the following proposals in the context of their plan for European political union:

(a) Harmonisation of the final stages of tariff cuts in EEC and EFTA. The EFTA timetable ends on 1st January, 1967, whereas that of the EEC, even if fully accelerated, is not likely to end before July 1967. Harmonisation would not help EFTA.

(b) Accreditation of an EEC representative to EFTA. This would be of little practical value but if other members of EFTA thought it a helpful gesture we could agree.

(c) Further tariff cuts between the EEC and EFTA Governments after the completion of the Kennedy Round (see paragraph 7 (c) above).

(d) Negotiations during the Kennedy Round to ensure that intra-European trade benefits from the full 50 per cent cut. The EEC's present exceptions list covers a number of items of European interest and discussions are going
on to try to reduce their impact on intra-European trade. It is unlikely that the French will let the full 50 per cent cut go through.

(e) Contact between the EEC and EFTA on conjunctural and monetary problems. This already exists between the individual countries in the OECD, the IMF and the Group of Ten.

At the EFTA Ministerial meeting in November, Ministers “noticed with interest” the German proposals. The Germans put them to the EEC Council, but there has as yet been no follow-up.

9. Any trade or tariff negotiation (as distinct from an application under the Treaty of Rome) would normally be handled for the EEC by the Commission but on the EFTA side by representatives of member Governments. It might be possible, if such negotiations led to a closer relationship, to create some formal consultative council. The EFTA Secretariat have already been discussing with the Commission the idea of periodic joint meetings on a strictly technical level. Monsieur Lange, the Swedish Minister responsible for EFTA, has in the past aired the idea of an EEC-EFTA contact committee. It seems likely however that anything more ambitious would meet with opposition from the Community; and our own experience of contacts with the Commission suggests that they will be of extremely limited value so long as there is no positive will on the part of all the member Governments to see Britain and the other members of EFTA exercising a real influence in the formation of common European policies.

10. Conclusion

(a) Association with the EEC under the Treaty of Rome would probably require acceptance of most of the obligations of full membership without a corresponding degree of control. We should appear as second-class citizens and the effect could even be to frustrate rather than promote the achievement of the type of European policies we want.

(b) Short of formal association, there might theoretically be a closer relationship between the Community and EFTA. Complete removal of the tariff barrier would, however, raise the problems of the 1958 negotiations for a free trade area and it is scarcely conceivable that these could now be overcome on a basis which would be beneficial to British interests.

(c) The value of and scope for any lesser European tariff negotiations would depend very much upon the outcome of the Kennedy Round.
30th March, 1965

CABINET

THE OUTLINE PLAN

MEMORANDUM BY THE FIRST SECRETARY OF STATE AND SECRETARY OF STATE FOR ECONOMIC AFFAIRS

It was originally our intention to publish an Outline Plan some time in March as background to the Budget and to give an interim report on work on the main plan which would not be complete until the summer. A draft of a White Paper prepared for this purpose is attached. I have now come to the conclusion, however, that on balance it would be best not to publish such a document at this time for the following reasons.

2. Any White Paper published now while work on the plan is in mid-stream is bound to consist largely of a recital of policy decisions already announced, together with an outline of problems not yet fully resolved. First there is the balance of payments gap which seems likely to persist unless further measures are taken. Any figures published now could prove embarrassing internationally during the next few months. Secondly there is the general problem of the heavy conflicting claims on resources. The need to put the balance of payments right and to invest heavily in order to achieve faster growth will, even if we can keep within the 4½ per cent limit on Government expenditure, keep down the rate of increase of personal consumption in the next few years to quite a low level. It is clear, moreover, that within the 4½ per cent limit on Government expenditure we shall not be able to have programmes for social services which are in any way adequate for our needs (or satisfy our election commitments) unless defence expenditure is brought to the level of the 1964/65 estimates or below.

3. With all these issues unresolved, I believe that we should do more harm than good by publishing a White Paper now. When a suitable opportunity arises to explain this decision in public, I intend to say that, despite our original intention to publish some sort of interim report in the form of an "Outline Plan", it proved unsatisfactory in practice to publish such a document while the key decisions on the plan had yet to be made in the light of the
information now coming in. Most of the material available for publication can more appropriately be incorporated in a speech, e.g., during the Budget debate, and in our regular monthly Progress Report.

4. The first stage of work on the plan is now nearly complete. The results of the industrial inquiries covering most of private and public industry are now coming in, as are the expenditure proposals up to 1969–70 which Government departments are submitting to the Treasury and the Department of Economic Affairs.

5. During the next four months work on the plan will go through three further stages:

(a) The information now coming in will be analysed and further discussions will be held with industries. This stage will last until mid-May.

(b) Policy decisions on the outstanding problems must be taken between mid-May and the end of June.

(c) A document must be completed by the end of July for publication during the summer. This will not be easy: a good many of the difficulties affecting publication now will still be with us then.

Throughout this process we shall have to consult the National Economic Development Council and I am taking steps to try to improve the security of the Council for this purpose.

6. I seek the agreement of my colleagues to the proposal not to publish a White Paper on the Outline Plan at the present time.

G. B.

Department of Economic Affairs, S.W.1,
THE PLAN FOR ECONOMIC DEVELOPMENT 1964 TO 1970

A PRELIMINARY OUTLINE

1. The Government are drawing up, in consultation with the National Economic Development Council, a national plan for economic development covering the period to 1970. The first results of the industrial inquiry are now coming in and detailed work on Government expenditure and policy is in full train. The various projections and policy issues involved in all this work will be pulled together over the next few months to complete the plan in the summer. In the meantime the object of this paper is to describe its broad outlines.

The national economic objective

2. Clearly we shall only achieve the higher living standards we want if we make production grow faster. But we shall get neither higher living standards nor faster growth unless we correct our balance of payments deficit. The nation's Economic Objective must therefore be to secure the sustained expansion of our national output, coupled with the establishment of equilibrium in our balance of payments. To attain these objectives we must work within the framework of a consistent plan. Otherwise decisions and actions are in danger of being taken in a way unrelated to one another and to the achievement of our objective.

The rate of growth

3. How great an increase in output can we achieve between now and 1970? The answer largely depends on two things:

   (1) the increase in our labour force; and
   (2) the growth of output per man.

4. As to the first, the increase in the labour force is likely to be small, mainly because of the effects of the lower birth rate in the 1950s. In addition more young people are staying on longer in full-time education, and women are getting married at an earlier age. On present trends the labour force would rise by only about £ per cent a year between 1964 and 1970, compared with nearly £ per cent a year over the last 15 years. This makes it particularly important to make fuller use of the available labour in parts of the country suffering from high unemployment.

5. The main source of faster growth, however, must be a more rapid increase in output per man. This calls for better management and more rapid exploitation of technological advance by modernising out-of-date plant and out-of-date methods of working throughout the economy.

6. Output per man has recently been growing faster, and the annual rate of increase of output per man is now nearly 3 per cent. This is not good enough, but given a sustained effort and the right
measures, there is every indication that we can do better. The Government have therefore decided that it would be reasonable to aim at an increase of 25 per cent in national output over the whole period 1964–70. If we are to achieve this increase, output per man will have to rise on average by nearly 3\% per cent a year. This would mean that output in 1970 would be £8,000 million higher in to-day’s money values than in 1964.

7. To reach this objective, action is required both by industry and by the Government. What is being done, and what needs to be done, in each of the main fields of action is discussed below. The first aim must be to encourage fuller and more effective use of manpower in management, on the shop floor and throughout the country as a whole.

Regional policies

8. We cannot hope to get the growth we need if we fail to make full use of human and other resources in many areas while allowing others to become over-stretched. Regional policies have broader aims than industrial development alone: the balanced use of our economic resources is a prerequisite for securing rapid expansion. The Government’s policies will therefore be directed to influencing industrial and social development so that further strain on resources in areas of labour shortage will be avoided, and the fullest possible employment of manpower and other resources in less prosperous regions will be achieved. Regional Economic Planning Councils and Boards have been set up in Scotland, Wales and each of the new economic planning regions of England except in the South-East. They will make detailed studies of the pattern of population growth, industrial and employment trends and the programmes for housing, transport and other social investment. These will be fed back to the centre so that national planning can take full account of regional considerations.

9. A number of important decisions on regional policy have already been taken. Measures to control office building in the London Metropolitan Region were announced in November. The Government are studying the possibility of encouraging future expansion of office employment in other parts of the country. The criteria for granting Industrial Development Certificates have been made stiffer; and a further 29 advance factories are to be built in the Development Districts. In addition a comprehensive review of the scope of policies to influence the distribution of employment, both private and public, is in hand; and the possibility of further decentralisation of Government establishments is being examined. The growth of research and development work in those areas where it would contribute to more rapid growth will be particularly encouraged.

10. An urgent review of the last Government’s proposals for South-East England is in progress; but this has not been allowed to hold up the interim programme announced in February to meet London’s existing pressing housing needs. In the North-West a large new town will be established in the Leyland–Chorley area to
contribute both to Manchester's housing needs and to the economic growth of the whole region. The last Government's programme for Central Scotland is being reviewed to take more account of economic and industrial considerations, and legislation has been introduced to establish a Highland Development Board with executive powers. The Northern Ireland Government have recently published a report on the economic development of the area.

**Increasing the supply of trained manpower**

11. We are still short of skilled and trained men and women. The industrial inquiries now being undertaken are intended to provide more precise knowledge of the actual and prospective shortages of particular types of labour and skill, and of the industries where there may be surpluses of manpower. Continuing information on this subject will be provided by the work of the Ministry of Labour's Manpower Research Unit, by the Economic Development Committees and by the Committee on Manpower Resources for Science and Technology.

12. The responsibility for training or retraining work-people to fill these gaps will fall primarily on industry. The Industrial Training Boards will play a central role in this field. Five Boards have already been established and consultation is now in progress with a number of industries for the establishment of further Boards with a minimum of delay. The improvement and expansion of skilled and trained manpower in the coming years depend largely on the effectiveness of the Boards, and the Government are determined that they should succeed. In addition the Government is working in close collaboration with trade unions and management to enlarge the facilities provided by Government Training Centres.

**Encouraging labour mobility**

13. We must introduce new technologies and changes in the industrial structure if we are to achieve faster growth and higher living standards; but if they are not properly handled, such changes can lead to serious hardship for many individuals, and fear of the consequences of change can be a major obstacle to industrial advance. The Government therefore believe that policies to deal with the human problems involved have a key role to play in speeding up industrial modernisation. To this end the Government intends to:

1. legislate to provide compensation for workers who become redundant;
2. introduce wage-related unemployment benefits;
3. improve transfer allowances for workers who have to move away from home;
4. ensure the wider transferability of occupational pension schemes.

**Improving efficiency**

14. In the Joint Statement of Intent on Productivity, Prices and Incomes representatives of management and of the unions
undertook “to encourage and lead a sustained attack on the obstacles to efficiency, whether on the part of management or workers and to strive for the adoption of more rigorous standards of performance at all levels”. The Government, management and unions are working together to improve efficiency through the Economic Development Committees which have been set up so far in nine industries. As well as considering the contribution of their industries to the national development plan, their purpose is to identify and stimulate action required to remove specific obstacles to efficiency and expansion.

15. Raising management standards is a crucial part of improving Britain’s economic performance. We need a growing interest in new management techniques, and measures are being taken to expand management education and training. These include the establishment of two graduate business schools at London and Manchester, and encouragement for more and better management courses at universities and establishments for further education as well as by individual industries and firms.

16. There is still an urgent need for more technological awareness in top management. The new Ministry of Technology will undertake the task of speeding up the introduction of new technical developments into industry. Increased capital resources have been made available to the National Research and Development Corporation for supporting innovation in industry.

Investment

17. Better use of manpower must be matched by more productive investment. The need to modernise industry and achieve the structural changes in the economy necessary to correct the balance of payments will create heavy demands for industrial investment. Manufacturing industry in particular will need to increase its total investment more rapidly than the growth of the national product. Programmes for modernising energy production, communications and transport will mean heavy investment in the nationalised industries. Investment in housing and the fabric of the social and public services will also need to expand. The growth of public services in the form of education and health cannot be met without a corresponding growth in the investment in these services. Priorities will have to be established between these various fields; but it seems to be reasonable at this stage to envisage total fixed investment rising by 35 to 40 per cent between 1964 and 1970. These figures may well need revision in the final plan but it seems clear already that there will be heavy demands on the construction industries and the engineering industries producing technologically advanced and labour saving equipment.

The balance of payments

18. The sharp rise in imports and the slackening in the rate of growth of exports led to a marked deterioration in the balance of payments in 1964 and a deficit on current account of £374 million. At the same time there was an exceptionally heavy outflow of
long-term capital bringing the total deficit on current and long-term capital account to £745 million. 1964 was a particularly bad year for the balance of payments. The measures taken by the Government, together with an easing of some of the exceptional factors at work last year are already leading to an improvement. The remaining deficit must be eliminated quickly, and we must achieve the longer term structural improvement in the balance of payments needed to secure steady economic growth, to repay debt and to give more economic aid.

19. Every aspect of the balance of payments is being reviewed to this end. A major part of any improvement, however, must come from a better performance in international trade. The increase in imports needed to support a 25 per cent expansion of output will require a faster rise in the volume of exports than the 3 per cent annual average of the last 10 years. The Government have taken action to improve export credit facilities; they have provided rebates of indirect taxation to exporters worth £80 million a year; they are prepared to bear part of the cost of overseas market research and are contributing an increased amount to the financing of trade fairs. Consultations are being held with industry to explore all practicable further ways of increasing exports.

20. The Economic Development Committees are examining closely the reasons for the rapid growth in imports of manufactured goods and every effort will be made with the co-operation of industry to identify and rectify weaknesses in our competitive position whether due to quality, design, marketing or lack of capacity. Improvements in these directions will both help our exports and enable us to meet competition from imports more effectively.

21. But increases in exports and savings in imports will depend heavily not only on an improvement in our competitive position through a faster growth of efficiency, but also on greater stability of prices and costs as a result of a successful prices and incomes policy.

**Prices and incomes**

22. Management and the unions have jointly pledged themselves to keep increases in money incomes in line with increases in real national output and to maintain a stable general price level. Machinery has been agreed for examining both the general movement of prices and incomes, and particular cases. It is particularly important to change the attitude of mind in which cost increases are too easily accepted and too readily passed on in the form of higher prices. The Prices Review Division of the National Board for Prices and Incomes can review not only price increases, but also cases in which there is reason to expect that prices ought to have fallen but have not done so. The Incomes Division can review claims, settlements or other questions. All these references will be made by the Government either on request or on their own initiative.

23. The next stage, which should be completed very shortly, is to reach agreement on the considerations which should govern those responsible for determining prices and incomes and by which the
Board will be largely guided in examining individual cases. All parties to the agreement intend that the policy on prices and incomes should be effective. It is an agreed policy and, therefore, puts obligations on all concerned to make it work. Since it covers prices as well as incomes, it puts pressure on both management and unions to avoid income increases that push up costs, and should have an increasingly important effect in improving our international competitive position.

The use of resources

24. The table below sets out the broad dimensions of the 25 per cent growth plan so far as they can be assessed at this stage of its formulation.

25. The first main claim on increased output is the need to improve the balance of payments. The exact amount of resources which will have to be diverted to the balance of payments between 1964 and 1970 will depend partly on changes in the long-term capital account and on the future movement of the terms of trade. Taking all the relevant factors into account it seems prudent to allow for an extra £700 million at 1964 prices for the net improvement in the balance of trade in goods and services and net investment income from abroad between 1964 and 1970.

<table>
<thead>
<tr>
<th>TABLE</th>
<th>THE BROAD DIMENSIONS OF THE PLAN 1964 TO 1970</th>
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<tbody>
<tr>
<td></td>
<td>£ million at 1964 market prices</td>
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<tr>
<td></td>
<td>1964</td>
</tr>
<tr>
<td>-------</td>
<td>------</td>
</tr>
<tr>
<td>Gross National Product</td>
<td>22,632</td>
</tr>
<tr>
<td>Balance of Trade and net investment income from abroad</td>
<td>166(-)</td>
</tr>
<tr>
<td>Investment:</td>
<td></td>
</tr>
<tr>
<td>(a) Private and nationalised industries</td>
<td>3,856</td>
</tr>
<tr>
<td>(b) Social and other public services and housing</td>
<td>1,949</td>
</tr>
<tr>
<td>(c) Stockbuilding...</td>
<td>524</td>
</tr>
<tr>
<td>Defence</td>
<td>1,921(-)</td>
</tr>
<tr>
<td>Consumption:</td>
<td></td>
</tr>
<tr>
<td>(a) Social and other public services</td>
<td>3,510</td>
</tr>
<tr>
<td>(b) Personal</td>
<td>21,038</td>
</tr>
</tbody>
</table>

Note:
(1) These figures differ from the balance of payments on current account by the amount of net transfers abroad (which totalled £208 million in 1964).
(2) These figures cover current military defence expenditure on goods and services on the definitions used in the statistics of National Income and Expenditure published by the Central Statistical Office; the coverage is somewhat wider than that used for the Defence Budget. The 1970 figure is consistent with the Defence Budget at constant prices being limited to a total equal to the Estimates for 1964-65, i.e., £1,998 million.
26. Another major claim is for increased investment, both public and private, which is discussed above. Then there are the claims of public expenditure and personal consumption. Final decisions on individual public expenditure programmes up to 1970 will be reached in drawing up the plan, but meanwhile the Government have announced that central and local Government expenditure must be related to the prospective increase in national production; on present judgment this means limiting the average increase from 1964–65 to 1969–70 to 41/2 per cent a year at constant prices, taking one year with another.*

27. Defence expenditure puts a special burden on many of our most scarce resources and on the balance of payments: the Government are therefore conducting studies with the object of limiting defence expenditure by 1970 to around 1964 levels in real terms. This would leave room for a substantially faster rise than 41/2 per cent a year in expenditure on other public services as a whole, many of which make an important contribution to our ability to remain an advanced industrial nation and to secure faster growth.

28. This leaves personal consumption. On the provisional assumptions made here, this would rise on average by about 3 per cent a year from 1964 to 1970. There would, however, be a considerably faster expansion of communally provided services such as education and health, which provide some of the most essential elements in our standard of life, and where improvements in the quality of many of these services are urgently needed. In the initial years of the plan, the necessity of securing a substantial improvement in the balance of payments and a high level of investment will keep down the resources available for increasing personal consumption; in the later years of the period there should, however, be scope for a faster rise. Throughout the period we must expand savings. Personal and Company savings have been increasing as a proportion of income and to the extent we can increase them further, the less taxation will have to be used as a means of limiting consumption.

Further work on the plan

29. Further work on the plan will continue over the next few months both within the Government and in discussion with industries. The aim of planning is not merely to define objectives and to set quantitative guidelines for industry and Government, but to devise the policies and ensure that the action is taken needed to achieve those objectives. In the initial stages the need to collect and assemble a great deal of detailed and complex material in order to shape it into an agreed plan has meant that much work has had to be compressed into a shorter period than would otherwise be desirable. It will continue to be necessary to work to a very tight timetable this year in view of the need to produce a generally agreed

* This limit applies to all central and local government expenditure including the operations of the National Insurance Funds but excluding debt interest, i.e., it includes cash payments such as pensions, as well as current and capital expenditure on goods and services as shown in the table.
plan of action as soon as possible; in future years, however, it is hoped that it will be possible to allow longer for the different stages of work on the plan.

30. In a political and industrial democracy such as the United Kingdom the success of this new venture in planning will depend upon mutual understanding and effective co-operation between the Government, management and unions, and the population in general. The Government intend to continue the work of elaborating the plan in close consultation with management and unions through the National Economic Development Council, and to encourage joint discussions of these problems and their solutions at every stage. Only in this way will the final plan command the support and agreement to action needed to achieve the desired goals.
NOTE:

European Launcher Development Organisation

The attached minutes are relevant to Cabinet's discussion, on Thursday, 1st April, of the memoranda (previously numbered MISC. 31/5 and 31/6) which are annexed to C. (65) 54.

Cabinet Office, S. W. 1.
30th March, 1965

Mr. P. Rogers
Major-General L. de M. Thuillier
Mr. J. E. Fraser

SECRETARIAT:

Mr. P. Rogers
Major-General L. de M. Thuillier
Mr. J. E. Fraser

SUBJECT:

FUTURE UNITED KINGDOM PARTICIPATION IN THE EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION (ELDO)
CABINET

EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION

MINUTES of a Meeting held at
10, Downing Street, S.W.1., on
MONDAY, 29th MARCH, 1965, at 3.30 p.m.

PRESENT:
The Rt. Hon. Harold Wilson, M.P., Prime Minister

The Rt. Hon. Denis Healey, M.P., Secretary of State for Defence

The Rt. Hon. Anthony Wedgwood Benn, M.P., Postmaster General

Mr. Austen Albu, M.P., Minister of State, Department of Economic Affairs

The Rt. Hon. Lord Chalfont, Minister of State for Foreign Affairs

Mr. Edward Redhead, M.P., Minister of State, Board of Trade

The Rt. Hon. Roy Jenkins, M.P., Minister of Aviation

Mr. John Diamond, M.P., Chief Secretary, Treasury

Lord Bowden, Minister of State, Department of Education and Science

Mr. Cledwyn Hughes, M.P., Minister of State, Commonwealth Relations Office

Lord Snow, Parliamentary Secretary, Ministry of Technology

S E C R E T A R Y:

Mr. P. Rogers
Major-General L. de M. Thuillier
Mr. J.K. Fraser

S U B J E C T:

FUTURE UNITED KINGDOM PARTICIPATION IN THE EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION (ELDO)
FUTURE UNITED KINGDOM PARTICIPATION IN THE EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION (ELDO)

The Committee had before them memoranda by the Minister of Aviation (MISC. 31/5) and the Chief Secretary to the Treasury (MISC. 31/6) on the future level of United Kingdom participation in the European Launcher Development Organisation (ELDO).

THE MINISTER OF AVIATION said that it was necessary to give instructions to officials for the ELDO Conference which was to be reconvened in Paris on 7th April. The Conference held on 19th January had been inconclusive and contrary to expectation it had not been the United Kingdom delegation which was isolated, because of our doubts about future ELDO programmes but the French, who had unexpectedly produced the proposal that the development of ELDO A should be abandoned and an immediate start made on the development of ELDO B launchers. This proposal, with alternatives, had been referred to a working group, which had subsequently reported that the best foundation for the ELDO B programme would be completion of the ELDO A and A/3 programmes, but that an alternative foundation would be a compromise based on the original ELDO A programme involving the development of a two-stage instead of a three-stage launcher.

He agreed that there was no economic case for further participation in ELDO programmes. But there was a strong political case for our continued participation, as the Organisation had had its origin in the United Kingdom proposals for alternative uses for the BLUE STREAK rocket, and considerable ill feeling would be generated in Europe if we withdrew. The second argument against our withdrawal from ELDO at this stage was that to do so would involve almost irrevocably abandoning space technology. There was no question of our mounting an effort competitive with the United States and the U.S.S.R., but grave danger that we might allow the United States to have a monopoly in the West if we were to abandon the ELDO programmes. Less important considerations were difficulty in maintaining the Woomera range if ELDO were withdrawn, and the possibility of industrial dislocation in certain areas of the United Kingdom (particularly at Spadeadam in Cumberland where £20 million had been invested). The estimate of our future commitment had been carefully drawn, and though it was substantial it was not over-large in relation to the nature of the programme. He therefore recommended that the United Kingdom delegation to the ELDO Conference should be instructed to agree in principle to the development of an ELDO B launcher on the basis that the best foundation for this would be the completion of the ELDO A programme, and that we should meet our
share of the cost of work during 1965 whilst the details of such a programme were determined. Alternatively, the delegation should agree to the completion of the ELDO A programme as a two-stage launcher preliminary to the development of an ELDO B launcher. If the French were to insist on their proposals to move straight to the ELDO B programme, the United Kingdom delegation should reserve their position so that our continued participation in it might be reviewed.

THE CHIEF SECRETARY, TREASURY said that it was common ground that there was no economic justification for the ELDO programmes. The advantages of "technological spin-off" might better be realised by pursuit of projects of greater viability. So far as our relations with Europe were concerned, it would be better to support fruitful projects (such as European Space Research Organisation (ESRO) and the Anglo-French strike trainer) than programmes such as ELDO which would probably lead to further embarrassments. The estimate of a future annual United Kingdom commitment of £8 to £9 million was based on two unlikely hypotheses, that costs would not increase beyond the estimate, and that our future share of costs would be reduced to 25 per cent. It was most important that the implications of the ELDO B programme be fully considered and it was noteworthy that the French proposals would also remove work from Weernia to their proposed equatorial launch site in French Guiana. ELDO programmes were of no economic importance and should therefore enjoy a low priority in their claims on our resources; we should take this opportunity to avoid any further commitment to ELDO programmes.

In discussion the following points were made:

(a) It was doubtful whether there would be any appreciable benefit by way of "technological spin-off" from further participation in the ELDO programmes, particularly as the technology of BLUE STREAK was well developed. There was hardly any scientific interest in ELDO programmes, and there was no commitment on ESRO to use the ELDO launcher when it was developed. Past experience suggested that present estimates would increase as had those for the ELDO A programmes (from £70 million to approximately £150 million) and it was probable that further participation in ELDO programmes would constitute a future commitment which it would be even more difficult to terminate later. We had accepted dependence upon the United States for the launching of both military and civil communications satellites, and it was probable that in 1971, when ELDO B might be capable of launching a communications satellite, that there would be little potential demand for it for communications purposes, as synchronous
satellites would already have been launched for the civil system and the American Titan 3C would be a more efficient means of launching replacements. Nor was it a corollary of withdrawing from ELDO that we should abandon space technology. The BLACK ARROW programmes and our co-operation with the French on DIAMANT would retain our interest in launchers, though of a smaller capability and there were other fields of space technology in which we could fruitfully engage. The arguments for continuing to participate in ELDO were therefore primarily political, and it was not clear that our continued participation would yield any long-run political advantages.

(b) Against these considerations must be set the political odium which would be incurred if we withdrew from an organisation in which we had originally taken the lead, and the danger that doing so might be interpreted as loss of confidence in Europe. Australia attached great importance to continuance of the ELDO programmes at Woomera which were about a quarter of the current Woomera programmes. We were not yet entrenched in space technology, nor was it possible to foreseem what the situation would be in ten years' time. Whilst we might with impunity contract out of programmes in technologies in which we were established, to do so in this case might exclude us from a field of advanced technology and have an extremely adverse effect on our own technologists. Our current national programmes of space technology did not at present envisage the launching of a communications satellite, and the consequences of relying on the United States for launches had not been fully considered, and might ultimately involve unacceptable costs and conditions. The consequences of withdrawing from this co-operative European technological programme, which was avowedly uneconomic, might have repercussions in other more fruitful fields.

Although it was not possible to attribute absolute certainty to the ELDO estimates they included a 40 per cent contingency allowance, and it was arguable that when the ELDO A programme was complete we could look for a reduction in our contribution to 25 per cent. The political objective in continuing our ELDO participation was to retain the goodwill not of the French (who might in any case welcome our incurring the blame for the collapse of the Organisation) but the other five European participants.

(c) It would be necessary to keep in close touch with the Australians on our future policy, having regard to the importance which they attached to Woomera and the possibility that the ELDO B programme required an equatorial launching site. But further consideration should be given (if we continued to participate) to the choice of a suitable launching site either in the North-West of the present Woomera range or elsewhere in Australia sufficiently close to the Equator.
It was certain that the United Kingdom view would be sought early in the Conference, and it would be impossible for the delegation to temporise. It would therefore be necessary to give them clear instructions on the nature of our future participation in ELDO. There was, indeed, some demand from European members other than France for discussions prior to the Conference on the line to be taken then, and it would be useful if the Foreign Office could be authorised to undertake these discussions.

A major objection to our continued participation in the ELDO programmes was that the ultimate commitment was not clearly defined. Whatever the outcome of the Conference, every effort should be made to limit our contribution within a defined ceiling.

Summing up the discussion, THE PRIME MINISTER said that the arguments were finely balanced. A majority of the Committee supported the proposals by the Minister of Aviation. But the political, economic and technological issues and the level of expenditure involved were such as to make it necessary to bring the matter before the Cabinet.

The Committee -
Took note that the Prime Minister would arrange for future United Kingdom participation in ELDO to be discussed by the Cabinet on Thursday, 1st April.

Cabinet Office, S.W.1.
29th March, 1965
CABINET

EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION

Note by the Secretary of the Cabinet

By direction of the Prime Minister the attached memoranda by the Minister of Aviation and the Chief Secretary, Treasury, are circulated for discussion by the Cabinet at their meeting on Thursday, 1st April.

(Signed) BURKE TREND

Cabinet Office, S.W.1.

29th March, 1965
CABINET
EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION

Memorandum by the Chief Secretary to the Treasury

The Minister of Aviation proposes that the Government should commit itself to participation in the development to completion of the initial launcher (ELDO-A) either as a three-stage or as a two-stage vehicle, and, in principle, in the development of an advanced launcher (ELDO-B). He estimates that the continuing cost of this to the U.K. might be of the order of £8-£9 million a year.

2. Technical programmes as insufficiently defined as ELDO-B cannot of course be precisely costed at this stage. Experience shows, however, that early estimates of the cost of advanced aerospace programmes are usually greatly exceeded. There is also much doubt about the proportion of the cost which the U.E. would bear. It seems on the whole very unlikely that the cost to the U.K. will in practice be limited to £8-£9 million a year.

3. The Interim Report by the official Task Group on Government Expenditure (MISC. 51/2) concluded that the ELDO programme, and other launcher and satellite programmes envisaged, were of low economic priority and could not be justified on economic grounds. The Task Group pointed out that the economic argument was not merely neutral, but militated actively against incurring expenditure on this work, since the resources pre-empted by it were capable of being put to alternative uses which were likely to yield a better economic return.

4. The Minister accepts that the case for continued U.K. participation in ELDO does not rest on economic arguments. He considers, however, that there are other grounds on which the expenditure on ELDO could be justified. I do not agree. I note, for example, the suggestion that it would be unwise to allow launching capability to become an American monopoly (in the West; the Russians are of course in active competition). I do not believe however that the American position would in practice be noticeably affected by the development of an ELDO launcher since, as the Minister observes, even the advanced ELDO-B launcher cannot be expected to be technically or financially competitive with American launchers. The scale of the American launcher effort, which dwarfs the proposed ELDO programmes, must enable them to maintain and increase the lead they now hold.

5. More important is the suggestion that, having taken the initiative in setting up ELDO, we should be seriously criticised by our European partners if we now brought about the collapse of the organisation by withdrawing from it. It is also suggested that ELDO is an important factor in our policy of advancing our relations with European countries by means of co-operation with them on technical projects. The Government is now committed to spend very large sums (on, for example, the Concord, the Anglo-French Strike/Trainer, and the European Space Research Organisation) in pursuance of this policy. Unless, however, the projects selected for
co-operation are themselves likely to be successful, the consequences of engaging in them may prove to be a source of political embarrassment. This has already proved to be the case with ELDO. The initial programme (ELDO-A) is now generally accepted to be not worth pursuing in itself, and we are told that we must go on to ELDO-B. But it is not seriously claimed that the ELDO-B launcher will have substantial worthwhile uses. I do not believe that the Government's European policies should be pressed in aid of co-operative projects whose sole justification is that they are co-operative.

6. It should be remembered that the ELDO programmes to which it is now proposed that the Government should commit itself are very different from those covered by the original ELDO Agreement. The latter specifically provided for the development of a three-stage ELDO-A; now the proposal is that ELDO should, if the French insist upon it, abandon development of this launcher, but should instead develop a two-stage ELDO-A, with ELDO-B to follow. It should also be noted that all this arises out of the flat French refusal at the January Conference to continue with the development of the launcher to which the French set their hand in the ELDO Agreement. By insisting on a limitation to their financial commitments in respect of the original launcher, the French have, moreover, introduced an element of ultimatum; in effect, ELDO members are being told that the French will only continue as members of the Organisation provided it commits itself to the adoption of new plans which have not been properly costed or even delineated.

7. I believe that the U.K. should refuse to participate in the proposed ELDO programmes, since they fall, in my view, squarely within the category of items of low economic priority which the Government are publicly pledged to cut out.

J.D.

Treasury Chambers,
Great George Street,
S.W.1.

26th March, 1965
1. My colleagues will recall that the E.L.D.O. Conference in Paris in January failed to reach any conclusion because the French made radical proposals to stop work on the current E.L.D.O. programme and proceed with an advanced type of launcher at once. The Conference will be reconvened on 7th April, to consider the report of a Working Group which has been examining the French and alternative proposals.

2. I understand that the French are hoping to formulate their own views on the future of E.L.D.O. by 31st March, and that they will let the Embassies in Paris know their views before the Conference opens. The matter is likely to be raised during the Prime Minister’s visit to Paris, and it is also essential that we should give instructions to our delegation to the Conference.

3. I attach a detailed paper leading up to the conclusion that our delegation should be authorised to agree in principle to the development of an E.L.D.O. 'B' launcher consisting of Blue Streak plus one or two liquid hydrogen upper stages and to accept the Working Group's recommendation that the best technical foundation for such a project is the completion of the first programme (E.L.D.O. 'A' launcher and Apogee motor). If the French do not agree with the Working Party's recommendation, our delegation should be authorised to accept a compromise solution which has been suggested by the Working Group and which involves the completion of the E.L.D.O. 'A' programme as a two-stage launcher.

4. The attached paper sets out the arguments for this conclusion at length. Briefly, I believe that to abandon E.L.D.O. at this stage would have most serious political consequences in Europe; would involve the forfeiting of valuable technological "spin off"; might involve the closing-down of the Woomera base, a consideration of great concern to the Australians; and would mean delivering ourselves and Europe completely into the hands of the Americans for the means of future world communications (civil and military) and space research.

5. I think that our object should therefore be to devise the most economical programme which will keep Europe in this field of Technology; but as such the programme will need a more specific objective than simply "keeping in the field". It must be aimed towards actual hardware and launching. The proposals in my paper are designed to meet this objective, and I therefore seek agreement of my colleagues to our delegation being instructed to proceed as at paragraph 3 above.

R. H. J.

Ministry of Aviation,
ANNEX

EUROPEAN LAUNCHER DEVELOPMENT ORGANISATION

1. Before our delegation attended the Paris Conference on ELDO in January, I circulated a note setting out the case for and against continuing our support for the Organisation. Subsequently the United Kingdom Delegation was authorised, if our partners showed a real desire to continue with ELDO, to offer to provide our share of expenditure during 1965 while estimates and programmes were critically examined.

2. The proposals before the Conference involved the completion of the initial (ELDO A) programme followed by development of an apogee motor and more advanced launchers using liquid hydrogen upper stages (ELDO B.1 and B.2) at a total estimated further cost (including contingencies) of £238M. (subsequent re-examination of costs has increased this figure to £253M.). When the Conference opened the French Delegation proposed an immediate start on the development of ELDO B launchers and the cessation of all work on the current ELDO A programme which did not contribute to the development of the B type launcher. They said the proposals before the Conference were too expensive. The completion of ELDO A would serve little useful purpose in view of technological advances since the programme was started and it would be better to develop as quickly and cheaply as possible a launcher which would have practical applications. The French estimated that their proposal would reduce the cost by about £50M.

3. All Member States were concerned about the cost of the ELDO programmes but the French proposal was not acceptable to the others. The estimated savings were thought to be exaggerated. It gave rise to serious industrial problems particularly in the U.K. and Australia, and it involved a high level of technical risk. The Conference set up a Working Group to examine the French and alternative proposals. In an effort to force an early decision in favour of their proposal, the French applied economic sanctions by limiting funds available to the Organisation in the first six months of 1965 and by refusing to agree to the original £70M. estimate for the ELDO A programme being exceeded.

4. As a result of the French initiative, the January Conference achieved nothing. It will reconvene on April 7 to consider the Working Party's report. The report says the French proposal is unacceptable and that the proposals originally before the Conference for completing the ELDO A and A/S programmes are, on technical grounds, the best foundation for the ELDO B programme. If for any reason these cannot be adopted a compromise solution based on the original ELDO A programme but developing a two stage launcher instead of a three stage one is the best alternative technical solution, bearing in mind the requirements of the ELDO B programme.

5. The compromise solution would (except in France itself) virtually eliminate the hiatus in the work implicit in the French proposal, and thus avoid consequential industrial difficulties leading to the loss of the existing trials and development teams. It would considerably reduce the element of technical risk. But the savings on the earlier estimate of £238M.
£238M., which the French regarded as too high would be small (£18M.). There would be advantage for the United Kingdom in the adoption of a new programme which would enable us to reduce our percentage contribution instead of continuing at the higher rate on the old programme.

6. The compromise proposal may not, therefore, be acceptable to the French; their estimate of savings from their own proposal—in our view much exaggerated—would not be achieved. But if ELDO is to remain in being the French position is not far from our own. ELDO should, in that case, devise the most economical programme which would keep Europe in this field of technology. Such a programme should have a more specific objective than simply "keeping in the field." It should be aimed at hardware and actual launching of satellites which could be used in conjunction with a global telecommunications system.

7. It is an open question whether this objective could be achieved without developing the B.2 version of the advanced launcher. The Working Group's report states that the B.1 version meets all European requirements now identified, but the use of an equatorial launching site may be necessary in some cases and experience shows that estimated performance is not always attained. It is currently estimated that the adoption of the Working Party's recommendation up to the development of the B.1 launcher would cost about £185M. (including the same element of contingency as in the £238M. in paragraph 2 above). The programme would be spread over about 7 years. Providing we could negotiate our percentage contribution down from the current 38.79% to the 25% which is related to our Gross National Product and which applies in such cases in other organisations, such a programme would cost the U.K. about £7-8M. per annum. The French and German costs would be of the same order of magnitude.

8. Under such a modified programme Europe would develop a launcher using an advanced form of propulsion and guidance. It would not be such an advanced vehicle as the ELDO B.2 launcher with two liquid hydrogen stages which was envisaged in the French proposal and in the proposals originally before the Conference, but the estimates for the B.2 launcher are not so well founded as the others and some Member States may not be willing to commit themselves beyond the B.1 launcher at this stage. If it were to be used to put satellites into synchronous equatorial orbits, the most probable requirement for communications purposes, it would have to be fired from an equatorial launch site instead of the present base at Woomera, which would however continue to be used for development programmes. The French are proposing to develop such a base in French Guiana for their national programme. They have suggested that ELDO should take a share in that base at an estimated cost of about £30M. If this were agreed it would increase the cost of the programme to the U.K. by about £1M. a year.

9. The payload performance of the ELDO B.1 launcher is difficult to determine because the technical factors are not sufficiently known. But drawing upon such United States information as is available to us and recognising the difficulty of applying this to forecasts of European development achievement over the next decade, U.K. opinion is that the launcher would only be able to place a 250 kg. communications satellite in a synchronous orbit from an equatorial launch site. ELDO, basing their estimate on French studies, think in such circumstances the payload would be 350 kg. If a programme leading to a B.1 launcher were adopted the need for an adequate margin of performance could lead to pressure to go on to the B.2 programme. The merits of such a requirement would have to be assessed on the basis of much better information about costs than is currently available.

10. Apart from the possibility of launching a few scientific experiments for ESRO, the prospects of finding a practical use for an ELDO B launcher depend on its ability to compete in price and performance with American launchers.
launchers for the task of putting communications satellites into orbit. Whatever global system may be adopted, the European contribution to the International Communications Satellite Corporation's funds would, on the most optimistic assumptions, hardly entitle Europe to more than one launch per year.

11. By the time ELDO B.1 has been developed the Americans will have available a Titan 3C launcher using conventional propellants as opposed to the difficult liquid hydrogen technique. If fired from Cape Kennedy this launcher could put into orbit twice the payload of the ELDO B.1 launcher fired from an equatorial site. It would be capable of multiple launchings, on which the economies of communications satellites are likely to depend, at a cost comparable with that of a simple ELDO B.1 launching. Thus, technically and financially, the ELDO B.1 launcher, even after the construction of an equatorial launching site, would not be competitive.

12. At a time when we are looking for economics in Government expenditure, and some of our principal partners in ELDO are expecting us to achieve them, it is difficult to argue an economic case for an Organisation which seems unlikely to yield an adequate return for our investment. But the case for our continued participation in ELDO does not rest on economic arguments. It rests upon the effect on our partners if we lead the move for disbandment; and upon the undesirability of contracting irrevocably out from the rapidly developing but largely unpredictable field of space research. We cannot leave everything to the Americans and yet hope to achieve a technologically advanced economy.

13. There have been rapid and significant advances in the field of satellite communications over the last few years. Adequate launching capacity is essential for participation in space activities, and in the field of launching techniques we hold the lead in Europe at present. It is a field to which European countries as well as the United States and the U.S.S.R. attach importance. Space activities are very much in the public eye and no nation with claims to an advanced technology seems prepared to leave the field entirely to others.

14. Moreover, we took the lead in setting up ELDO as a form of technological co-operation with our European partners. This is an aspect which has considerable attractions for some of the other Member States. It enables them to participate in an activity which individually they could not undertake. But the U.K., by completing the development of Blue Streak and successfully firing it three times, is the only ELDO partner with technical achievements to show from the jointly financed programme. We should suffer serious political embarrassment if we took any action now as a result of which we could be held responsible for ELDO's collapse. The effects would not be confined to ELDO alone but would almost certainly affect our position in other European Organisations. It might also react on any proposals we may contemplate for bi-lateral co-operation.

15. If ELDO programmes ceased, work arising from the likely future defence programme may be insufficient to justify keeping open the joint U.K./Australian facilities at Woomera to which Australia attaches great importance as one of her few bases of advanced technology. In this country some 2,000 men would have to be re-deployed. The bulk of them in the Stevenage and Derby areas could probably find alternative work fairly easily but this does not apply to about 700 employees at Spadeadam in Cumberland. No alternative work can be foreseen for this costly Establishment (£22M.).

Conclusions

16. The April Conference will be held at a time when the financial situation of ELDO is critical. The limitation by the French on expenditure in the first six months of 1965 to £13MN., and their refusal to allow the £7MN. estimate to be exceeded, means that if the Conference does not reach a
conclusion which will enable the French to lift the restrictions, Member States will have to stop work on ELDO contracts at the beginning of May, if they are not to exceed their share of the £70m. Such action would almost certainly result in the Organisation collapsing.

17. None of the other Member States have spoken in terms which suggest they are anxious to wind up ELDO. They attach importance to the aims agreed when the Organisation was established and seem anxious to ensure against future uncertainties by continuing to play a part in an aspect of space technology which would provide sufficient knowledge and experience to enable Europe, if it so desired, to participate in future applications which may emerge.

18. In these circumstances I suggest our Delegation should be authorised to agree in principle to the development of an ELDO B Launcher consisting of Blue Streak plus one or two liquid hydrogen upper stages and to accept the Working Group's recommendation that the best technical foundation for such a project is the completion of the first programme (ELDO A) Launcher and apogee motor. The development of an ELDO B Launcher should be based on an agreed specification aimed at meeting an identified requirement. Arrangements for the development of the ELDO B.1 type launcher should be put in hand without delay and a study be made to determine whether the agreed objective can be best met by constructing an equatorial launching site, developing a B.2 type launcher or both.

19. The French may not agree to the acceptance of the Working Group's recommendation that the completion of ELDO A and A/S programmes is the best foundation for an ELDO B programme on the grounds that it is too expensive. In that case our Delegation should be authorised to accept the compromise solution suggested by the Working Group involving the completion of the ELDO A programme as a two stage launcher and urge its acceptance on the French.

20. I therefore recommend that the United Kingdom Delegation should be authorised to agree to bear our share of the cost of work during 1965 while details of such a programme, the contribution to its cost and the sharing out of the work involved are determined. The U.K. share of the cost of an ELDO B programme should be reduced from the 38.79% we pay at present to 25% if possible, and not more than 30% in any case.

21. Despite the inability of the French experts on the Working Group to associate themselves with its recommendations because they were not in line with the French proposal to the inter-Governmental Conference, there are grounds for thinking that the French will not insist on the acceptance of that proposal. If, however, the French do insist on the acceptance of the proposal which they made to the January Conference, the United Kingdom Delegation should make it clear that the proposal is not acceptable and if the French and others are unwilling, subject to a thorough re-examination of the costs involved, to complete the current programme, we should state that our Government would have to give immediate consideration to the question of continued participation in the Organisation.
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19. The French may not agree to the acceptance of the Working Group's recommendation that the completion of ELDO A and A/S programmes is the best foundation for an ELDO B programme on the grounds that it is too expensive. In that case our Delegation should be authorised to accept the compromise solution suggested by the Working Group involving the completion of the ELDO A programme as a two stage launcher and urge its acceptance on the French.

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CABINET

IMMUNITIES AND PRIVILEGES FOR THE COMMONWEALTH SECRETARIAT

MEMORANDUM BY THE SECRETARY OF STATE FOR COMMONWEALTH RELATIONS

At the meeting of Commonwealth officials in January to consider the formation of a Commonwealth Secretariat the United Kingdom representative made an offer, with Ministerial approval, of a scale of immunities and privileges to be enjoyed by the Secretariat and its staff broadly corresponding to that accorded to international organisations in this country. Under this proposal the “High Officers” of the Secretariat would enjoy full diplomatic immunities and privileges. But other senior staff recruited from elsewhere in the Commonwealth would have only first arrival Customs privileges and immunity in respect of official actions.

2. The other Commonwealth representatives were unanimous in pressing strongly for an extension of full diplomatic immunities and privileges to all senior staff recruited from elsewhere in the Commonwealth. They argued that without this extension Secretariat staff, who would mainly be recruited from the diplomatic services in Commonwealth countries, would be at a disadvantage compared with their colleagues in Commonwealth High Commissions here; and that it might not be possible to attract the best candidates for service in the Secretariat. The United Kingdom representative said that the British Government would have difficulty in justifying to Parliament such an extension, but, in view of Commonwealth pressure, undertook that the question would be re-examined.

3. The Official Committee on Immunities and Privileges and the Home Affairs Committee have accordingly looked at the matter again. Their main concern was with the effect which such a concession might have on our policy towards international organisations in this field, since a case could not be established for the Secretariat staff to enjoy more favourable immunities and privileges as a matter of functional need. They also felt that such a wide concession of this kind would be open to Parliamentary criticism. The majority of members of the Home Affairs Committee were of the opinion that the concession should not be made. But the Committee felt that it was not appropriate for them to take a final decision since they were not well placed to balance the harm which might be done to our general policy over immunities and privileges,
if we did make the concession, against the damage to Commonwealth relations if we did not.

4. I fully recognise the force of the arguments which have been advanced against conceding full diplomatic status. We are, however, faced with the fact that there are strong feelings among the rest of the Commonwealth that the concession should be made; Mr. Pearson has already pressed the point in a recent message to the Prime Minister. They will, for instance, maintain that the Secretariat is a special case, so that any preferential treatment for it should be free from awkward repercussions elsewhere; that we ought to be prepared to treat a Commonwealth organisation more favourably than an international organisation; and that any failure to meet the rest of the Commonwealth on this point would be evidence of a lack of enthusiasm for the concept of the Secretariat as a unique and valuable Commonwealth organisation.

5. In these circumstances I should like to propose that we should seek some arrangement which would indicate that we had made a sincere effort to satisfy the rest of the Commonwealth in spite of our very real difficulties. The question of personal immunity presents particular difficulty; it is the aspect on which hitherto Parliament has felt most strongly, particularly in relation to traffic offences. But I hope that we shall be able to make a limited concession over diplomatic privilege. The concession which I have in mind is that the senior staff from overseas should be allowed to obtain from the Secretariat reasonable quantities of duty-free liquor and tobacco for representational purposes and that staff should be granted refund of petrol duty from the Commonwealth Relations Office Vote, as is done for High Commission staff. Arrangements of this kind in relation to liquor and tobacco (though not petrol, on which the duty is insignificant) exist at the United Nations Headquarters in New York.

6. Such a concession would fall a long way short of what the rest of the Commonwealth are asking for, in that it excludes personal immunity and does not grant full continuing Customs privileges. We should, however, be in a much stronger position to argue with Commonwealth Governments that, despite our very real difficulties, we had made a considerable and genuine effort to meet their wishes. I would hope, too, that we could expect an understanding response in Parliament, where the great majority of Members would, I think, recognise the need to do something special for this new and very important Commonwealth development.

7. Legislative sanction would, I understand, be necessary. The most convenient course might be an appropriate clause in the short Bill which will in any case be required to cover the setting up of the Secretariat.

8. I very much hope that my colleagues will agree that I should approach Commonwealth Governments on the basis of the arrangement proposed in paragraph 5.

A. G. B.

Commonwealth Relations Office, S.W.1,
30th March, 1965.
CABINET

REPRESENTATION OF THE VATICAN IN THE UNITED KINGDOM AND OF THE UNITED KINGDOM AT THE VATICAN

MEMORANDUM BY THE SECRETARY OF STATE FOR FOREIGN AFFAIRS

There are two anomalies in our conduct of diplomatic relations with the Vatican which I think it would now be opportune to remove.

2. The first anomaly is that, although since 1928 Her Majesty’s Government have had a diplomatic representative with the rank of Minister accredited to the Holy See in Rome, we have declined to accept a Papal diplomatic representative in this country. The Vatican have made it clear in the past that they would like to appoint one, but it has been felt here that certain sections of Protestant opinion would object to a Papal envoy being received at the Court of St. James’s. The Pope’s representative in this country, therefore, has the title of Apostolic Delegate only, i.e., he is the Papal Delegate to the Roman Catholic Hierarchy in Britain (and, incidentally, in Malta), but he has no diplomatic standing and no right to conduct business with Her Majesty’s Government as representative of the Vatican State. The Vatican is thus the only State with which our diplomatic relations are not upon a basis of reciprocity. I believe that Her Majesty’s Government are alone in treating the Vatican like this.

3. A second anomaly has developed since then, because in 1964 our other remaining Legations (Bulgaria, Rumania and Hungary) were raised to Embassies. Since the closure of our Legation to the Yemen, our Minister to the Vatican has become the only Head of a British Diplomatic Mission who retains this title. Moreover, there are now only three other Legations at the Vatican; the remaining Missions all being Embassies. Thus our representative in the Vatican is always one of the last in point of precedence which makes his position no easier.

4. This situation is likely to attract attention in the immediate future because, for a variety of reasons, Her Majesty’s Government’s relations with the Vatican will be in the public eye more than usual:

(i) The Prime Minister will be visiting Rome from 27th-29th April as the guest of the Italian Government and will be calling on the Pope.
(ii) It has just been announced that Mr. Williams is being appointed as Her Majesty’s Minister to the Holy See in succession to Sir Peter Scarlett and will take up his duties in May. I have already had one letter from an M.P. urging that Mr. Williams should be given the rank of Ambassador, and Sir Peter Scarlett has heard that the Catholic Union, the leading organisation of Catholic laymen in this country, will soon be making representations to the same effect.

(iii) We have been informed that Archbishop Cardinale, the Apostolic Delegate in Britain and Malta, is about to be accepted as Papal Nuncio (i.e., Ambassador) in Malta by agreement with Dr. Borg Olivier’s Government. The contrast between Archbishop Cardinale’s status in this country and in Malta may provoke Press comment.

5. The present would therefore be a suitable time to put relations with the Vatican on a normal footing by raising our new Minister to the rank of Ambassador and by accepting a Papal Ambassador with the title of Nuncio or perhaps of Internuncio, which is, I believe, more normal in non-Catholic countries. We should not be conferring any new or special recognition of the status of the Pope as a temporal sovereign by receiving his Ambassador here. Her Majesty’s Government recognised the Pope in this capacity in 1928 when they appointed a representative to the Vatican. There is, moreover, no constitutional objection to receiving a Papal representative here. The Attorney-General stated this view in a letter dated 11th April, 1957, to the Legal Adviser at the Foreign Office.

6. There are arguments of substance in favour of improving diplomatic contact with the Vatican in this way. It might be helpful to the efforts which we make from time to time to aid Protestant minorities in Spain and other Catholic countries where they still suffer from certain disabilities. It might just possibly even be helpful to the general climate of our relations in Spain. The Vatican also has influence in many parts of Africa and Asia (e.g., South Vietnam) and information about trends in these countries and in Eastern Europe. A closer exchange on these matters could be of value to us.

7. The argument against accepting a Vatican Ambassador is that the move might be unpopular with certain sections of Protestant opinion in Britain. This is probably still true but the bulk of non-Catholic opinion is no longer predominantly or significantly anti-Papal. Pope John and Pope Paul have both won respect in this country by their efforts in the direction of Christian unity. Pope Paul has also visited and been well received in a leading Commonwealth country—India. Some other predominantly Protestant European countries, the Federal German Republic, Holland and Switzerland, already exchange Ambassadors with the Papal Court and so do some non-Christian countries, e.g., India and the United Arab Republic.

8. There can be no doubt that the Pope would welcome an invitation to appoint a diplomatic representative here. It would,
however, be necessary to make it clear to him that there could be no question of according to the Papal representative the position of Doyen ex officio of the Diplomatic Corps which is accorded to Nuncios in Catholic countries and in certain others such as the Federal German Republic. The Papal representative in this country would have to take precedence among Ambassadors according to his seniority.

9. If my colleagues agree, I would propose to seek the approval of The Queen to instructing our present Minister at the Vatican to approach the Holy See with the suggestion that diplomatic representatives with the rank of Ambassador should be exchanged. Perhaps we could do this in time for an announcement to be made before or during the Prime Minister’s visit to Rome.

M. S.

Foreign Office, S.W.1,

30th March, 1965.
31st March, 1965

CABINET

THE TSR.2 OR THE F-111A

Memorandum by the Secretary of State for Defence

Introduction

When we last discussed the aircraft programme in January we adjourned a decision on the TSR.2 (C. C. (65) 6th Conclusions, Minute 6). Much progress has been made in the last two months:-

(a) the study group set up by the First Secretary of State has indicated that no continuing major redundancy is likely if the TSR.2 is cancelled, particularly if the British Aircraft Corporation can be persuaded to close their Weybridge rather than their Preston works;

(b) examination by the Department of Economic Affairs and the Treasury suggests that the resources released by cancelling the TSR.2 could be re-deployed to earn or save substantial amounts of dollars to set against the cost of purchasing the F-111A;

(c) more information has been obtained on the military acceptability and costs of the two aircraft;

(d) it is unlikely that we could obtain further information which would significantly affect the decision between the two aircraft for many months to come.

2. We now have the information on which to reach a decision. The TSR.2 is costing us £1 million a week - £20 million since we assumed office. I believe we should now cancel it and take an option on the F.111A - the United States Air Force version of the TFX.

Development position and military acceptability of TSR.2 and F-111A

3. The engine and airframe development programmes of the two aircraft have reached roughly the same stage - with the TSR.2 after five years of development compared with just over two years for the F-111A. In recent months the flying programme of the TSR.2 has progressed very well after surmounting last year's engine problems, whereas there are currently serious engine problems in the F-111A. The Americans have, however, turned large resources on to these problems and expect to solve them.
4. Equipment development has been tackled differently for the two aircraft. The TSR.2 was conceived and developed from the outset as an advanced weapons system of high performance, whereas the initial mark of the F-111A will be given a current equipment fit of relatively low performance, the intention being to upgrade this in a Mark 2 which will give the aircraft a performance for strike/reconnaissance broadly comparable with that of the TSR.2.

5. The military merits of the two aircraft are finely balanced. Either aircraft would satisfy our military need, but there is a slight military preference for the F-111A Mark 2.

Costs

6. More cost information has become available about both aircraft. In each case it is related to a purchase of 110 aircraft, the maximum need we foresee, but not necessarily the number we shall want to buy. For the TSR.2 the cost details result from negotiations between the Minister of Aviation and the manufacturers. This has resulted in a target price - with a maximum penalty of £9 million to the airframe company, if it is exceeded. For the F-111A the information is from the United States Secretary for Defense, who has personally negotiated with the manufacturers. This has resulted in a firm price offer for the F-111A with Mark 1 avionics and an estimate for Mark 2 avionics.

7. These costs indicate that the F-111A should be at least £200 million cheaper than the TSR.2, and perhaps as much as £280 million cheaper if our expectation of lower running costs for the F-111A proves justified. This is on the basis of money still to be spent and allows for cancellation charges on the TSR.2 (£70 million) and interest payments (£70 million) on credit facilities which the United States Government will make available for the F-111A. In percentage terms the F-111A's advantage is 23-34 per cent, as against a maximum differential of 20 per cent which Ministers considered acceptable if we were to order the TSR.2.

8. These calculations still include an additional British safety margin of £250,000 for each F-111A, which I think can be regarded as more than adequate to cover the remaining main variable in the price of the F-111A; i.e. the additional cost of the Mark 2 avionics fit, for which the United States estimate is £200,000.

9. The F-111A's cost advantage will increase if we decide, as we well may, to buy less than 110 aircraft.

10. The phasing of the bill for the F-111A would be less burdensome than that for the TSR.2, since the money would be spent later. A very broad index of this phasing advantage is given by the following table showing expenditure in 5-year sequences:-

-2-
<table>
<thead>
<tr>
<th></th>
<th>1965/70 £ million</th>
<th>1970/75 £ million</th>
<th>1975/78 £ million</th>
<th>Total £ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR.2</td>
<td>561</td>
<td>472</td>
<td>50</td>
<td>1,083</td>
</tr>
<tr>
<td>F-111A Mark 2</td>
<td>240</td>
<td>385</td>
<td>180</td>
<td>805</td>
</tr>
</tbody>
</table>

(includes residual capital and interest payments)

These comparisons include not only £70 million for cancellation charges, but also £70 million for interest on credit facilities. Repayments of capital and interest will be made on expenditure incurred on price levels obtaining 7-10 years earlier. This offers substantial economic advantages. If we were prepared to deny ourselves these advantages and pay for the F-111A on delivery, as for the TSR.2, the cost differential between the two aircraft would be increased by eliminating the £70 million interest charge.

11. The need for early savings is important. We face a formidable problem in reducing prospective defence expenditure, particularly in the next five years. Cancelling the TSR.2 and replacing it with the F-111A will save well over £300 million in this critical period. This saving is a vital part of any plan to achieve the reduction in defence expenditure that we are seeking. In my view the financial arguments for an early decision in favour of the F-111A are compelling.

12. The cancellation of the TSR.2 will release resources, particularly skilled manpower, to the value of £750-£800 million. About £330 million of these resources would be released in the next 5 years, when dollar costs would be about £12 million. The total dollar liability over the next 13 years is some £500 million for a full buy of 110 aircraft. This makes full provision for purchasing spares. Some £70 million of the dollar cost derives from a credit arrangement, which would be concluded primarily on balance of payments rather than defence budget grounds, and which postpones the bulk of the liability until after 1970.

The need

13. The purpose of a strike/reconnaissance aircraft is:-

(a) in the strike role, to be able to destroy on the ground the enemy's capacity to attack our own forces, and to prevent him for reinforcing his own troops. The knowledge that we have this capability acts as a powerful deterrent against the threat of escalation in conventional operations;

(b) in the reconnaissance role, to be able to give early warning of the deployment and movement of enemy forces so that rapid precautionary moves, on a small scale, can be made which may often prevent the need for larger scale action at a later stage. If there should be a threat of limited war, this capability is an essential element in the political control of the situation.
14. Unless we abandon almost all our current commitments outside Europe, we shall need an aircraft of the TSR.2/F-111A class for the strike/reconnaissance role in the 1970s, and no alternative aircraft will suffice. It is common prudence to plan to include some of this class of aircraft in our forces, even if economic factors should compel us in consequence to reduce the number of other types of aircraft. Moreover, although the F-111A is about twice as expensive as the improved Buccaneer or the Phantom, at 500 miles radius of action 11 F-111As or 13 TSR.2s would be equivalent to 25 developed Buccaneers or 50 Phantoms.

Numbers

15. We have already reduced the planned numbers of aircraft from 158 by eliminating the provision for stationing them in Germany. 110 aircraft is now the maximum if we are to maintain our existing commitments outside Europe. We might be able to reduce the number further by eliminating commitments or on certain other hypotheses including the use of other British aircraft for parts of the TSR.2/F-111A role. We must not decide how many aircraft we should buy until we have completed our review of defence commitments and tasks. The best and most economical way of preserving the freedom of action that we need is to opt for the F-111A which offers the following advantages over the TSR.2:

(a) the final decision on numbers can be left open for longer;
(b) there is a relatively small research and development charge for each F-111A which will not vary greatly with the number purchased;
(c) the production price will remain relatively stable, irrespective of the number that we purchase;
(d) if any aircraft are lost or damaged in operations, it should be easier and quicker to replace them.

Nature of the F-111A Option

16. If we are to cancel the TSR.2, we must be able to announce simultaneously that we have secured a satisfactory option on the F-111A. This is essential because without it we could not justify to Parliament, the country, or the Services a decision to cancel the TSR.2 and also give an assurance that the RAF will be able to carry out its tasks. But Ministers will not want to commit themselves more deeply than is essential to ensure that it is available to us at a satisfactory price. The detailed discussions that I have been having with the United States Government show that we could make an arrangement which would limit our commitment to ordering by 1st January, 1966 10 F-111A Mark 1 aircraft, with an option for up to 100 Mark 2 aircraft which need not be exercised either in part or in whole before April, 1967. Such an arrangement would give us time to decide on the numbers needed in the light of the defence review. An option which gives us this flexibility in time and numbers seems likely to be on the basis of an estimated price. Provision will be made in any arrangement for fitting the Rolls Royce Spey engine (if examination shows this to be sensible), a British developed reconnaissance pod, and, where practicable, other British equipment.
Reciprocal Purchase by U. S. A. from Britain

17. The Minister of Defence (RAF) has recently been to Washington to discuss this question with the United States Secretary for Defense, Mr. McNamara. As a result the United States Government is willing to agree on a public statement waiving the 50 per cent United States preference rule which at present applies against any British military equipment bought for the United States forces. This announcement would be tied to the signing of an arrangement, on the lines indicated in the preceding paragraph covering the F-111A. The United States Government would also be willing to look at United States defence requirements and to use their best efforts to procure some defence equipment from this country, provided that it meets requirements as to performance, time and cost. These steps offer some hope of greater success than hitherto in selling British equipment to the Americans, though they will obviously require time to take effect.

Recommendations

18. I recommend that:­

(a) we should decide now to cancel the TSR.2;

(b) we should conclude our negotiations with the United States Government for an arrangement giving us an option to buy the F-111A at a satisfactory price on the lines suggested in paragraph 16 above;

(c) the nature of the option to buy the F-111A should be presented to Parliament on the lines of the draft at Annex.

D. W. H.

Ministry of Defence, S. W. 1.

31st March, 1965
ANNEX

DRAFT TERMS OF ANNOUNCEMENT ON F-111A OPTION

[To be preceded by a passage dealing with cancellation of TSR.]

It would be impossible for our forces to forgo the aircraft at present planned to replace the Canberra towards the end of this decade, unless it were certain that their operational tasks could be carried out by other means. It will not be possible to define these tasks precisely until the defence review is completed later this year; but it seems likely that the military commitments which this country can be expected to face in the 1970s will require the R.A.F. to possess some long-range strike/reconnaissance aircraft. Her Majesty’s Government has made arrangements, therefore, with the United States Government by which it has secured an option on the F-111A aircraft at a price which would bring a saving of £250m. compared with the TSR. On money yet to be spent and inclusive of cancellation and interest charges - if we eventually ordered the maximum number of aircraft required to fulfil our existing operational commitments. It may well be possible, however, to reduce this number substantially as a result of the defence review.

The nature of the option is such as to require only a very small initial order of the F-111A to be placed at the beginning of next year, and to give us a further 12-18 months before a follow-up order has to be placed. This arrangement will enable us to complete our defence review before any final step is taken. If it emerges that the need for a certain number of F-111A aircraft is then established, we shall have had time to consider every means of keeping this number to a minimum by making the best possible use of all available British aircraft. We shall also have been able to explore the possibility of including British components in the F-111A in order to reduce dollar costs.

Meanwhile, I am able to inform the House that the United States Government has also agreed to waive the 50 per cent preference rule which operates at present against purchases of British military equipment by the United States, as soon as the first small initial order for the F-111A is placed. In addition, the United States Government has indicated its willingness to examine its own defence requirements and use its best efforts to procure some defence equipment from the United Kingdom, provided that requirements as to performance, time...
and cost are met. This undertaking offers some hope of greater success than hitherto in selling British equipment to the United States. We shall take all possible steps to secure United States orders for British equipment prior to taking up our option on the F-111A.
CABINET

THE NEED FOR AN OPTION ON THE F-111A

Memorandum by the Secretary of State for Defence

I believe that there are grave political and military dangers in cancelling the TSR.2 unless, at the same time, we secure an option on the F-111A. Without such an option, once we have cancelled the TSR.2 we shall be entirely in the hands of the Americans as to the terms, price and politico-military conditions under which we might subsequently buy the F-111A, if this proves necessary.

The Nature of the Option

2. Our objective must be to secure from the United States Government an option to purchase the F-111A which binds them to supply it to us at the best possible price, while leaving us free as to whether we take the option up, and the numbers we purchase if so. This freedom is required until we have completed the defence review.

3. This has been our objective in the negotiations with the United States which are still in progress. Since I circulated C.(65)57, new information has become available. The United States Government has made a far more attractive price offer for the F-111A. This would make the first ten aircraft available at £2.125 million and later Mark II aircraft at £2.32 million. These figures include about £335,000 per aircraft for a research and development charge which the United States Government has said it will waive in full if necessary to maintain the basic aircraft price (including any effect of wage awards) at the level quoted. This is as firm and as good an offer as we could hope to secure. There can be no doubt that the existence of the TSR.2 has produced it. Once the TSR.2 were cancelled, we could not rely on getting so good an offer again. For comparison, the TSR.2 cost estimate is £2.9 million excluding the research and development cost of up to £300 million.

4. If we secure the option, we would not have to place a small initial order for training aircraft until January, 1966. No further orders would need to be placed until two years from now. Thus, we shall have completed our defence review before these decisions are needed.

5. The United States Government is expected to confirm specifically today that the terms of the option arrangement do not commit H.M.G. to purchasing F-111A aircraft.
CONCLUSIONS

6. An option in favourable terms on the F-111A is indispensable if the TSR.2 is to be cancelled. Today’s offer coupled with the specific assurance that the arrangement would not commit us to buying any F-111As offers us a uniquely favourable opportunity. I recommend that we should —

(a) cancel the TSR.2;

(b) conclude an arrangement with the United States Government for an option on the F-111A;

(c) make an announcement on the lines of the revised draft at Annex.

D. W. H.

Ministry of Defence, S.W.1.

1st April, 1965
REVISED DRAFT TERMS OF ANNOUNCEMENT
ON F-111A OPTION

[H. M. G. have no intention of requiring our forces to forego
the aircraft at present planned to replace the Canberra towards the
end of this decade without making certain they can carry out their
operational tasks by other means. It will not be possible to
define these tasks precisely until the defence review is completed
later this year; but it seems likely that the military commitments
which this country can be expected to face in the 1970s will require
the R.A.F. to possess some long-range strike/reconnaissance
aircraft. Her Majesty's Government have made arrangements,
therefore, with the United States Government by which it has
secured an option on the F-111A aircraft at a price which would
bring a saving of at least £250 million compared with the TSR. 2.
This is a cash saving even after taking account of cancellation
charges on the TSR. 2 and interest charges on long-term credit
facilities which the United States Government would make
available for any F-111As we decide to buy. The saving has
been calculated on the basis of an order for the maximum number
of aircraft required to fulfil our existing operational commitments.
It may well be possible, however, to reduce this number of aircraft
substantially as a result of the defence review. On certain
hypotheses about long-term commitments it might even be
possible to dispense with this type of aircraft altogether.

The nature of the option is, therefore, such that Her
Majesty's Government have until the beginning of next year to
decide whether to take it up. Any initial order would be a very
small number for training purposes. It would not be necessary
for Her Majesty's Government to place a follow-up order until
April, 1967. This arrangement will enable us to complete our
defence review before deciding whether to place any orders at all,
and it gives us two years from now before we need take a final]
decision on the total numbers we require. If it emerges that the need for a certain number of F-111A aircraft is established, we shall consider every means of keeping this number to a minimum by making the best use of all available British aircraft. We shall also explore every possibility of including British components in the F-111A in order to reduce dollar costs.

Meanwhile, I am able to inform the House that the United States Government have agreed to waive the 50 per cent preference rule which operates at present against purchase of British military equipment by the United States, if and when the first small initial order for the F-111A is placed. In addition, the United States Government have indicated their willingness to examine their own defence requirements and use their best efforts to procure some defence equipment from the United Kingdom, provided that requirements as to performance, time and cost are met. This undertaking offers some hope of greater success than hitherto in selling British equipment to the United States. We shall take all possible steps to secure United States orders for British equipment prior to taking up our option on the F-111A.
6th April, 1965

CABINET

IRON AND STEEL NATIONALISATION

Memorandum by the Minister of Power

At their meeting on 18th March, 1965, (C. C. (65) 17th Conclusions, Minute 3), the Cabinet approved in principle the proposals for nationalising the iron and steel industry worked out by the Ministerial Committee on Iron and Steel Nationalisation and asked me to circulate the draft of a White Paper describing these proposals and explaining the reasons for the exclusion of the British Iron and Steel Federation (B. I. S. F.) and its trading companies from the projected legislation.

2. A draft White Paper is attached. The key section is Part III, which sets out our case for nationalising the main part of the industry. I have sought to avoid any denigration or arguable criticism of the industry and to concentrate on a positive presentation of our case. Paragraphs 10 to 14 set out the general case for nationalisation, supported by specific examples. Paragraph 15, which is necessarily more speculative, is designed to show that common ownership of the main part of the industry should bring real gains in industrial efficiency. This key section is preceded in Part II by a section which shows the size and importance of the industry in the economy and that it is not a normal private enterprise industry but has for over thirty years been necessarily subject to a special, but still inadequate, measure of public supervision. Together, Parts II and III deal with the suggestion that we could achieve our objectives by strengthening the Iron and Steel Board. On the other hand, the draft does not discuss the suggestion that we should take a shareholding of only 51 per cent in the main steel companies. I have considered including a paragraph on this, but I think that to do so would make too much of this point and detract from the positive presentation of our proposals.

3. I invite the attention of my colleagues to the following specific points on the draft:-

(a) Productivity and Man-power (Paragraph 15(c))

My colleagues should know that this may be a point of considerable criticism and difficulty. There are grounds for thinking that a proper use of man-power could lead to a reduction of about a third in the industry's labour force of 315,000 people. The B. I. S. F. is arguing that nationalisation will make it more difficult to deal with over-manning. In fact, an important contribution towards a reduction in man-power may be to rationalise the trade union and negotiating machinery of the industry.
Nationalisation will provide an opportunity to do this, and I am considering with the Minister of Labour how we can best use it. However, I think it would prejudice the difficult negotiations which will be necessary if we were to refer too directly to this point at this stage. The draft, therefore, rather glosses over this point; but I shall be discussing the point with the Trades Union Congress before the White Paper is published, and I should like to consider, in the light of their reactions, how we handle it in the subsequent debates.

(b) **Compensation (Paragraph 24)**

This section is being dealt with separately but I propose that the White Paper should set out the compensation terms in full. To omit any reference to compensation would lay us open to the criticism that we were preventing proper discussion of the nationalisation proposals. To give an incomplete account of the terms might lead to a spate of ill-informed Stock Exchange speculation for which we should be blamed.

(c) **Safeguarding Provisions (Paragraphs 25 and 26 and Annex C)**

The nationalisation measure will contain provisions to guard against the dissipation of the property and assets of the companies to be nationalised in the period until vesting day. In most nationalisation measures these provisions have applied to transactions after the date of publication of the Bill. The steel companies have, however, already learned much about our thinking and they will learn more from the White Paper. I therefore propose that the safeguarding provisions should apply to transactions after 4th November, 1964 - the date of the First Secretary of State's announcement of our intention to nationalise the main part of the industry - except that those which make directors personally liable for losses suffered by the Corporation should apply from the date of publication of the White Paper, which is the earliest date on which those concerned can be expected to know their content with certainty. The draft makes it clear that this should not hamper the normal operations of the industry and that I am ready to discuss with the directors concerned any transactions of an unusual character.

(d) **Compulsory Purchase of Land (Paragraph 29)**

The Ministerial Committee agreed that the Corporation should have power to purchase compulsorily, with the Minister's consent, land required for iron ore mining and that the Bill should be prepared on the assumption that this power should extend to land required for other purposes; but they asked that further consideration should be given to the latter point when the draft Bill was submitted to Ministers. I am drawing attention
to this point now because I think we need to refer to it in the White Paper to show that we are not overlooking the question of iron ore in the ground. An extended power of compulsory purchase will undoubtedly be controversial and may give rise to difficulty with some local authorities. I think, however, that the Corporation, like most other nationalised industries (including the Iron and Steel Corporation of Great Britain in 1951), should have this power and the White Paper is drafted accordingly. Without this power, the Corporation's development programme could be hampered or they could be held to ransom over small areas of land needed to complete a site for a major project or to expand an existing works.

(c) British Iron and Steel Federation (Paragraphs 43 to 45)

I think this section meets the views expressed by the Cabinet on 18th March that we should encourage the B.I.S.F. to adopt a responsible attitude in its negotiations with the National Steel Corporation but should leave no doubt about the Government's determination to secure a satisfactory solution, if necessary by further legislation.

The Bill

4. A submission has now been made to the Speaker on the question whether the Bill will be hybrid. He has replied that he does not wish to be consulted before the Bill is published because, until then, he cannot hear both sides. Parliamentary Counsel, and the House officials (with whom he has been in constant consultation) are, however, confident that if, in due time, the Speaker is asked for, and gives, a ruling, it will be that the Bill is not hybrid. I should have preferred to obtain the Speaker's ruling before either the White Paper or the Bill are published; but clearly no more can be done and we must now rely on advice which is the best available.

Conclusion

5. I ask my colleagues to approve the draft White Paper.

F. L.

Ministry of Power, S. W. 1.

5th April, 1965
The Government announced through the Queen's Speech on 3rd November, 1961, that they would initiate early action to re-establish the necessary public ownership and control of the iron and steel industry, in accordance with their Election pledges. The First Secretary of State and Secretary of State for Economic Affairs said in the Debate on the Address on 4th November:

"We have considered the contribution which the steel industry will have to make towards economic growth, and we are satisfied that this can best be achieved by re-establishing public ownership and control ....... Our intention is to take into public ownership the main part of the iron and steel industry."
(Hansard, Col. 227).

The First Secretary of State went on to make it clear that within the framework of this broad policy, the Government would welcome constructive discussions with interested organisations.

2. This White Paper describes the Government's proposals to give effect to the policy already announced. Legislation embodying these proposals will be presented to Parliament this session. During the preparation of their proposals, the Government have had discussions with interested parties, including the Iron and Steel Board, the trade unions, the British Employers' Confederation, the Federation of British Industries, the National Association of British Manufacturers, the British Iron and Steel Federation, eight other representative organisations of the industry and a number of individual companies.

II. Background

The Iron and Steel Industry

3. The iron and steel industry is usually held to include three main groups of operations apart from the working of iron ore. These are the making of iron, the making of crude steel and the shaping of crude steel into semi-finished and finished steel products. These operations are carried on in over 300 works. Twenty-two of these are integrated works which carry out all three operations and form the core of the industry. Another 30 works make crude steel and shape it; 9 works are concerned only with iron-making; 92 works are "re-rolling" plants which shape semi-finished steel; and about 150 works are specialist units which often straddle the borderline between the steel and engineering industries. These works are owned by about 260 limited liability companies, nearly all of which are members of the constituent bodies of the British Iron and Steel Federation.

(1) British Federation of Iron and Steel Stockholders; British Shipbuilders' Association; British Steel Founders' Association; Joint Iron Council; National Council of Associated Iron Ore Producers; National Federation of Iron and Steel Merchants; National Federation of Scrap Iron Steel and Metal Merchants; Steel Distributors' Association.
Steel Nationalisation

Draft White Paper

I. Introduction

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(1) British Federation of Iron and Steel Stockholders; British Shipbreakers' Association; British Steel Founders' Association; Joint Iron Council; National Council of Associated Iron Ore Producers; National Federation of Iron and Steel Merchants; National Federation of Scrap Iron, Steel and Metal Merchants; Steel Distributors' Association.
The Federation performs the normal functions of a trade association. It also provides important central services for the industry, including, through the British Iron and Steel Corporation Ltd. and its subsidiaries, the import of iron ore and certain other raw materials.

The Role of the Industry in the Economy

1. The iron and steel industry occupies a focal and dominating position in the British economy. First, it is one of our largest industries. Its sales in 1964 (over £1,000 million) were greater than those of the coal industry. At the end of 1954 it employed over 315,000 people, more than the electricity supply or aircraft industries. Its capital expenditure on major schemes (including the strip mill expansion programme) over the five years 1960 to 1964 averaged £150 million a year or 11 per cent of all investment in manufacturing industry. Second, the iron and steel industry provides basic materials for British industry. Key industries that are eminent growth points in our economy, particularly among the engineering industries, which account for about two-fifths of total output of manufacturing industries, depend significantly on steel. Third, the iron and steel industry is of crucial importance to the export drive. In 1954, manufactured goods containing steel accounted for almost half our total exports. A further five per cent of total exports was accounted for by exports of iron and steel as such.

Public Supervision of the Industry

5. It has been accepted for more than thirty years that the special characteristics of the iron and steel industry and its importance to the national economy demand a special measure of public supervision. From 1932 until 1939 this public supervision was exercised by the Import Duties Advisory Committee which encouraged the establishment of the British Iron and Steel Federation in 1934 and which from 1936, by a voluntary arrangement with the Federation, supervised the prices fixed by the Federation's constituent bodies. On the outbreak of war in 1939, direct control of the industry was assumed by the Ministry of Supply which itself fixed maximum prices under statutory powers. The Ministry of Supply continued to fix maximum prices after the war; but from September, 1945 until March, 1949, more general supervision over the industry, including supervision of production, distribution, raw materials supplies and modernisation schemes was exercised under the Minister of Supply by a non-statutory Iron and Steel Board, which also advised on prices.

6. The latter were, however, interim arrangements, superseded by the action of the Government of 1945/1951. That Government decided that the iron and steel industry had such characteristics and involved such a concentration of economic power that it ought not to be left in private hands. They considered too that the existence of a large number of separately-owned undertakings, the boards of which were responsible to their own shareholders, made it "difficult for the industry to achieve the necessary freedom of movement in reorganisation and to change the physical characteristics of many of its undertakings". Moreover, the

raising of the very large sums of capital which would be needed
for the industry's expansion programme would be facilitated if they
could be raised under Treasury guarantee. The Iron and Steel Act,
1949, therefore provided for the vesting in the Iron and Steel
Corporation of Great Britain of the shares and securities of all
but the smallest iron and steel companies. Vesting took place on
15th February, 1951.

7. Despite a lack of co-operation from the British Iron and
Steel Federation a start was made in the preparation of plans for
the reorganisation of the industry when the General Election of
October, 1951, resulted in the return of a new Government pledged
to denationalise the industry. On 13th November, 1951, the
Minister of Supply (3) gave the Corporation a general direction that
they should not make any alteration in the financial structure or
management of any publicly-owned companies without the consent of
the Minister. This was followed by the Iron and Steel Act, 1953
which provided for the transfer of the iron and steel undertakings
and other property of the Corporation to the Iron and Steel Holding
and Realisation Agency, which was given the duty of returning them
to private ownership. By 1961 the return of the iron and steel
industry to private ownership had been largely completed except for
Richard Thomas and Baldwins Ltd., which is still owned by the
Agency.

8. The Iron and Steel Act, 1953 also established the present
arrangements for the supervision of the industry by an Iron and
Steel Board appointed by the Minister of Power. The Board are
required "to exercise a general supervision over the iron and
steel industry ...... with a view to promoting the efficient,
economic and adequate supply under competitive conditions of iron
and steel products". In particular, they have to keep under
review production capacity, prices and the arrangements for
procuring and distributing raw materials and fuel, for research,
for the promotion of the safety, health and welfare of employees
and for joint consultation on matters of mutual interest to
employers and employees other than terms and conditions of
employment. Their most important power is to determine maximum
prices for iron and steel products. The Board have used this
power to set what they regard as reasonable delivered prices,
which until recently the steel makers agreed that they would
generally charge to their customers. The Board also have power,
subject to appeal to the Minister, to control substantial projects
for the provision of additional facilities for the production of
iron and steel in Great Britain. They have reserve powers (a) to
arrange for the import or distribution of raw materials or the
import of steel products and (b) to make grants and loans for
research relating to the iron and steel industry and for the
training and education of persons employed in that industry.

9. The Minister's powers under the Iron and Steel Act, 1953
are limited. He can require the Board to determine a maximum
price or to vary a determination; he has a reserve power to
provide or arrange the provision of production facilities which
are required for the efficient, economic and adequate supply of
iron and steel products and which the industry is unable or
unwilling to provide; he can acquire production facilities which
it is proposed to close or he can arrange with other persons to
keep them in use; and he can direct the Board to exercise their
power to arrange the import of steel products. The only one of

(3) Rt. Hon. Duncan Sandys, M.P.
these powers which the Minister has in practice used is the power
to arrange for the provision of production facilities, and this
only to make loans to Colvilles Ltd. and Richard Thomas and
Baldwins Ltd. for the provision of additional strip mill capacity.

III. The Reasons for Nationalisation

10. The Government are convinced that the reasons which led to
the passing of the Iron and Steel Act, 1949 are still valid. They
do not believe that the system of private ownership in the main
part of the steel industry, combined with the present form of
public supervision, or indeed any workable variation of such
supervision, can be reconciled with the national interest and with
the proper functioning of private enterprise itself.

11. In the Government's view, the steel industry has a dynamic
and positive role to play in sustaining a satisfactory rate of
general economic development and the balanced distribution of such
development between regions. The powers of the Iron and Steel
Board under the Iron and Steel Act, 1953, are essentially negative.
They can, within limits, prevent action which is clearly contrary
to the public interest; they cannot insist on positive develop­
ments which are in the interest of the nation but which, for
legitimate commercial reasons, individual companies may be
unwilling to undertake. Conflict between the requirements of
private enterprise, with its responsibilities to its shareholders,
and the requirements of the public interest, have arisen in the
past and are, in the nature of things, likely to recur in the
future so long as the industry is in private hands. Thus, there
were differences of view about the timing and location of the
provision in recent years of the new strip mill capacity in South
Wales and Scotland; and a settlement of these problems was
achieved only with Government intervention and the injection of
public funds on a large scale. While adequate capacity has now
been created to cover requirements for some years ahead, new
decisions will have to be taken in that period. It is, in the
Government's view, wrong to allow a situation to persist in which
effective plans to meet these vital needs should continue to be
dependent on the initiative of private interests; and in which
state control over the industry results in the granting of
substantial and perhaps exclusive privileges to particular
private concerns to develop.

12. The financial aspects of future expansion are also relevant.
With the growth in the size and complexity of units, massive
amounts of capital will be required to support the next major
expansion programme. For example, a single new large integrated
works may cost over £150 million. Over the past ten to fifteen
years several hundred million pounds of public money (including
loans from the Iron and Steel Holding and Realisation Agency as
well as the loans from the Minister of Power) have had to be
provided to secure development on an adequate scale. The Govern­
ment think that if the industry continues in private ownership,
the need for further public assistance is likely to recur over
the years, or, alternatively, that prices will tend to be fixed
at an unnecessarily high level.

13. The steel industry has historically shown a persistent
tendency towards larger units and arrangements of a monopoly and
cartel type. This is not confined to this country. The capital­
intensive nature of the industry, and the effects upon it of
cyclical fluctuations in demand, are well known. Thus, the
industry in the United Kingdom entered into arrangements to
/ensure
ensure that members generally observed as actual selling prices the maximum prices fixed by the Iron and Steel Board, under the Iron and Steel Act, 1953 and sought to defend this as justifiable before the Restrictive Practices Court. One of these arrangements was the subject of an enquiry by the Court which, in its judgment of 22nd June, 1964, found that it "must be declared contrary to the public interest". Since then, that agreement and others of the same type in the industry have been abandoned, although it is too early to say, especially in view of the current high level of economic activity, whether effective price competition will emerge or with what results. The industry, however, in view of the size of its units and the nature of its market, like the steel industries in so many other countries, may well develop some form of arrangement about actual prices charged, for example, through price leadership. In the Government's view, this basic industry with these monopoly characteristics should be in public and not in private hands.

14. More generally, the achievement of the nationalised industries over the last 15-20 years is one of which the nation can be proud. They are some of the best managed industries in the country and they are among the world leaders of technological progress in their respective spheres. The Government believes that State ownership and direction of the iron and steel industry will have a similarly dynamic effect in that field.

Objectives of New Arrangements

15. Against this background, it is not sufficient merely to try to remedy the manifest weaknesses inherent in the arrangements introduced in 1953. In making the changes needed to deal with the fundamental problems discussed in paras. 10 to 13, further advantages will be secured as follows:-

(a) **Investment and Capacity**

Common ownership and central control will ensure positive planning of the investment programmes of the main part of the industry as a whole, including such matters as the total new capacity to be provided, the location of major new units of plant, and the timely withdrawal of obsolescent plant.

(b) **Production and Marketing**

Central planning of production and marketing over the main part of the industry will make it possible to concentrate production in the most advantageous fashion in the national interest and to eliminate uneconomic practices such as unnecessary cross-hauls. The development of new management techniques, including the central use of computers, makes it possible to plan production and marketing centrally in some detail; and under common ownership, full advantage can be taken of these techniques by using them to secure the best pattern of production and marketing for the nationalised industry as a whole and not merely for the individual companies. This will improve the industry's service to consumers generally.
(c) **Productivity and Manpower**

Integrated investment planning and the improvement of the pattern of production and marketing should in themselves increase labour productivity in the nationalised sector as a whole. Efforts are also needed to increase more rapidly productivity inside individual units of the industry. With public ownership, there will be new opportunities for increasing cooperation between management and the trade unions so as to improve the use of manpower and increase productivity, and for applying rapidly throughout the nationalised industry improvements in techniques developed in one of its units.

(d) **Exports**

Expansion of exports of iron and steel as such becomes increasingly difficult as more countries develop their own steel industries. The Iron and Steel Board and the British Iron and Steel Federation foresee some reduction in such exports between 1968 and 1970. The improvement in competitive efficiency under nationalisation will assist the British steel industry to meet these difficulties. Common ownership of the main units should further help the export drive by making possible a better organisation of exports, for example by concentrating them on works best placed to meet overseas requirements. Even more important is the contribution which the efficiency of the nationalised steel industry will make to exports of the engineering and other steel-using industries.

16. In addition, common ownership should make it possible to improve the central services, particularly in the fields of raw materials and research, which the industry has already developed within the limits set by the existence of a large number of companies in separate ownership. It will enable the finances of the main part of the industry to be dealt with as a whole, which is an essential concomitant of the central planning of investment, production and marketing.

17. It is essential in the interests of the British economy as a whole that the improvement in the efficiency of the iron and steel industry, which can be obtained from the common ownership of its main units, should be secured as quickly as possible. It is unlikely that common ownership could be brought about by private mergers. In any event, there would be obvious and very strong objections to private ownership of a unit of such overwhelming power and importance to the economy. In the Government's view, nationalisation of the main part of the iron and steel industry is the only appropriate means of securing quickly the benefits of common ownership.

IV. The Government's Proposals

**The Scope and Method of Nationalisation**

18. The Government's proposals provide for nationalisation to
be effected by the vesting in a National Steel Corporation of all the shares and securities of the following fourteen companies:

- Colvilles Ltd.
- Consett Iron Co. Ltd.
- Dorman, Long & Co. Ltd.
- English Steel Corporation Ltd.
- G.K.N. Steel Co. Ltd.
- John Summers & Sons Ltd.
- The Lancashire Steel Corporation Ltd.
- The Park Gate Iron and Steel Co. Ltd.
- Richard Thomas and Baldwins Ltd.
- Round Oak Steel Works Ltd.
- South Durham Steel and Iron Co. Ltd.
- The Steel Company of Wales Ltd.
- Stewarts and Lloyds Ltd.
- The United Steel Companies Ltd.

19. The Government are satisfied that the public ownership of these fourteen companies will secure the essential objectives of nationalisation: and that nationalisation by the acquisition of shares, which means that the companies will be taken over in their entirety as going concerns, is the right course and will ease the transfer to public ownership.

20. These fourteen companies own or control the 22 integrated works and other iron and steel works. They employ on their iron and steel activities about 220,000 men and women - about 70 per cent of the total manpower of the iron and steel industry. Details of their production and capacity are given in Annex A. They each have a potential output of more than half a million tons of crude steel in 1965 and account for over 90 per cent of the production of iron ore, pig iron, crude carbon steel, heavy steel products, sheet and tin plate. They occupy a strong position in the production of most of the other main steel products. They control about 60 per cent of known reserves of iron ore in the United Kingdom.

21. Four of the fourteen companies - English Steel Corporation Ltd.; G.K.N. Steel Co. Ltd.; the Park Gate Iron and Steel Co. Ltd. and Round Oak Steel Works Ltd. - are subsidiaries of Vickers Ltd., Guest, Keen and Kettlefolds Ltd.; and Tube Investments Ltd. The Government have given much thought to whether the national interest would best be served by retaining vertical integration between these companies and their parent groups.

(4) Excluding (a) securities forming part of the loan capital of a company which can be redeemed at par at less than one year's notice and (b) securities created by a company as collateral security for a loan to that company. The latter will be cancelled as from the vesting day.

(5) The figures in this paragraph include the subsidiaries of the 14 major companies and companies in which the 14 major companies collectively have a majority interest. One of the 22 integrated works is owned by the Skinningrove Iron Co. Ltd. which is itself owned by Iron and Steel Investments Ltd. - a consortium 90 per cent of the shares of which are held by nine of the companies which will be nationalised.

(6) One per cent of known reserves is controlled by independent iron ore producers. The remainder is outside the control of the iron ore and iron and steel industries.
groups or by securing horizontal integration between them and the main part of the steel industry. They have decided that the balance of advantages lies with the nationalisation of the companies in these groups, specified in paragraph 16. These steel companies had an output of 3.4 million tons of crude steel in the twelve months July, 1963 to June, 1964 and have a potential output of 4.4 million tons in 1965. Their exclusion from nationalisation would seriously prejudice the possibility of national planning of production and marketing and would make it more difficult to rationalise the structure of the industry. The Government will, however, expect the National Steel Corporation to conduct their affairs with due regard to the existing close links between the steel-producing units and other units of Vickers, Guest, Keen and Nettlefolds and Tube Investments; and these concerns, like other consumers of steel, can expect to benefit from the improvements in efficiency which should result from common ownership of the main part of the industry.

22. Two other companies - Dorman, Long & Co. Ltd. and the Lancashire Steel Corporation Ltd. - are holding companies for groups which have important interests outside the iron and steel field, particularly in structural engineering, bridge building and wire manufacture. The position of these groups is, however, quite different from that of the Vickers, Guest, Keen and Nettlefolds and Tube Investments groups because their main interests are clearly in iron and steel activities. The Government think that there are substantial advantages in acquiring these two groups as a whole, thus taking them over as going concerns and strengthening the nationalised steel industry's base for diversification (see paragraphs 30 and 31 below).

Vesting Day

23. Vesting day will be the day after thirty-six weeks have passed from Royal Assent to the nationalisation measure, or an earlier day fixed by order of the Minister of Power.

Compensation

24. .

Safeguarding Provisions

25. The nationalisation measure will contain provisions to guard against the dissipation of the property and assets of the companies to be nationalised and their subsidiary companies in the period until vesting day. Annex C contains a summary of these provisions which will apply in some cases to transactions entered into after /Date of publication of White Paper/ and in others to transactions entered into after 14th November, 1964 - the date of the announcement by the First Secretary of State that the Government intended to take into public ownership the main part of the iron and steel industry.
26. The day to day operations of the industry and the implementation of its programmes of capital expenditure have been continuing normally. This is clearly required in the national interest and in the interest of the industry itself. Although the safeguarding provisions are necessary, they should not hamper the normal operations of the companies. Actions taken in good faith and in the normal course of business are unlikely to be challenged under these provisions; and the Minister of Power is ready to discuss with the directors concerned any transactions of an unusual character.

Organisation of the Nationalised Industry

27. The National Steel Corporation will consist of a chairman and from ten to sixteen other members appointed by the Minister of Power. The Corporation will initially be in the position of a holding company in relation to the nationalised companies. However, as sole shareholder, they will in practice be able to exercise all necessary central control over the organisation as well as the policy of the nationalised companies. They will be able to secure the regrouping of assets among the existing companies or the replacement of the existing companies by a completely new company structure or the setting up of a unitary organisation under which the underlying assets would be directly owned by the Corporation which would wind up the companies and set up their own administrative substructure.

28. One of the main tasks of the Corporation will be to combine necessary and desirable centralisation of the main policy decisions with the maintenance of vitality and a sense of responsibility in the subordinate units. This problem is common to all large organisations whether in the public or private sector of the economy. In this connection, special attention will have to be given to the substructure of organisation below the Corporation. The Government think it would be wrong to lay down a rigid substructure in legislative provisions which would be inflexible for the future and which would have to be framed before the Corporation have had an opportunity to offer their advice on the appropriate organisation. The nationalisation measure will, therefore, not contain a detailed scheme of organisation for the nationalised industry; but it will require the Corporation to undertake an immediate review of the organisation for carrying on the activities under their ultimate control and to submit a report to the Minister within twelve months of vesting day (or a longer period allowed by the Minister). The Corporation will also be required to submit further reports whenever they think it necessary or the Minister asks them to do so. The Minister will have the power to give the Corporation specific directions on organisation; and he will, of course, be answerable to Parliament for the use he makes of this power.

Powers of the Nationalised Industry

29. While a company structure is retained, the powers of the nationalised companies will in general be those in their memoranda of association. The National Steel Corporation will be empowered (a) to hold the securities which vest in them; (b) to carry on any activities which the nationalised companies are or have been authorised to carry on by their memoranda of association and (c) to form or acquire by agreement other companies whether engaged in iron and steel or other activities. The Corporation will also have power, subject to the Minister's approval, to purchase compulsorily land required for their own purposes or those of the nationalised companies.
30. The nationalised steel industry will be able to diversify its activities when this appears commercially advantageous. Diversification is a common practice among private companies, including the steel companies, and has advantages. It enables an industrial organisation to adjust its activities to keep pace with changing technologies and market conditions. The Government think that the efficiency of the national economy as a whole will be improved by giving the nationalised industries an opportunity to diversify like private companies.

31. The nationalised iron and steel industry will acquire a firm basis of diversified experience on which to build through the acquisition of the wider interests of the Dorman Long and Lancashire Steel groups and certain other companies, particularly Stewarts and Lloyds. A major extension of its activities outside the iron and steel field will, however, not be solely a matter for the commercial judgment of the Corporation. It may raise issues of national policy. Both the Corporation and the nationalised companies will, therefore, be required to obtain the consent of the Minister of Power before acquiring interests in companies outside the iron and steel field; and the Corporation will be required to obtain similar consent before themselves undertaking activities outside that field.

Duties of National Steel Corporation

32. The specific duties of the Corporation will be to:

(a) Promote the efficient and economic supply of iron and steel products in such quantities and at such prices as may seem to them best calculated to meet the reasonable demands of consumers and to further the public interest.

(b) Avoid, and ensure that the nationalised companies avoid, undue preference or unfair discrimination between customers but without prejudice to such variations in the terms and conditions on which their iron and steel products are supplied as may arise from ordinary commercial considerations or from the public interest.

(c) Promote the safety, health and welfare of their employees and the employees of the nationalised companies, and set up machinery for negotiation and joint consultation.

(d) Promote the export of iron and steel products and any other products they or the nationalised companies produce.

(e) Promote research and development in iron and steel activities and in any other activities which they or a nationalised company carries on.

Finance

33. The Corporation will be statutorily responsible for the finances of the nationalised industry as a whole, including the service of debt to the Exchequer. They will be required to ensure that the industry's revenues are not less than sufficient to meet outgoings properly chargeable to revenue account, taking one year with another, and to establish and maintain a general reserve. The Minister of Power will be empowered to give the Corporation specific directions about the disposal of surplus revenue and the establishment and management of the general reserve. It is the Government's intention to apply to the nationalised steel industry...
industry the principles and procedures set out in the White Paper on Financial and Economic Obligations of Nationalised industries, (7) under which financial objectives are agreed with the boards concerned.

34. The nationalised iron and steel industry will be required to borrow on a long-term basis from the Minister alone. It will be empowered to borrow on a temporary basis from the Minister or, with the consent of the Minister and the Treasury, from other persons, and the Treasury will be able to guarantee such borrowings. Total outstanding borrowings in addition to the industry's commencing capital debt for compensation and the public money already invested in it will be limited to £350 million. This limit should be sufficient to meet the industry's need for borrowing to finance capital expenditure already planned and to re-finance certain loans to the companies concerned from outside bodies, and should also allow a margin for any further plans over a period of about five years. However, it will be provided that the industry cannot borrow more than £200 million without a resolution of the House of Commons.

35. The Minister will be empowered to give the Corporation specific directions about servicing the nationalised industry's commencing capital debt and any further sums advanced. The Minister will be required to send a yearly account of payments and receipts to the Comptroller and Auditor General, who will be required to lay it before Parliament together with his own report on it.

36. The Corporation will be required to keep proper accounts and each year to submit their audited accounts and those of the nationalised companies to the Minister, who will be required to lay them before Parliament.

The Role of the Minister

37. In addition to the powers to give the Corporation specific directions referred to in paragraphs 28, 33 and 35 above, the Minister of Power will be able to give the Corporation directions of a general character on matters which appear to him to affect the national interest and specific directions to discontinue or restrict activities or dispose of production facilities, other than iron and steel activities or production facilities in Great Britain. The Corporation will be required to obtain the Minister's approval for the general lines of their programmes of capital development and research and development, to provide any information the Minister requires and to submit an annual report to the Minister who must lay it before Parliament.

Protection of Consumers

38. The increased efficiency resulting from nationalisation of the main part of the industry should benefit consumers of iron and steel through prices lower than might otherwise be necessary and improvements in the quality of products and services. The nationalisation measure will impose no restriction on imports of iron and steel. Consumers will be free to buy from the private sector any products it can provide. The nationalisation measure will provide for the establishment of a Consumer Council and consumers will be further protected by the specific duties to be imposed on the Corporation described in paragraph 32 above. Although the nationalisation measure will not give the Minister any specific powers on prices, he can be expected to be concerned

(7) Cmd. 1337.
with questions of price policy in the nationalised iron and steel industry in the same way that the responsible Ministers in successive Governments have been concerned with questions of price policy in the other nationalised industries.

The Private Sector of the Iron and Steel Industry

39. Although the main part of the industry will be nationalised, the private sector will still consist of about 210 companies having an annual output valued at about £200 million and employing nearly 100,000 people. The Government attach much importance to the private sector's having a healthy and efficient life of its own and so making a full contribution to the national economy. The private sector will have a particularly important role in those specialist finishing operations which lie on the borderline between the steel and engineering industries but it will be represented in most sections of the industry. The Government propose to abolish the controls now operated by the Iron and Steel Board. In the interests of proper planning of the investment programme of the industry as a whole, the Minister will retain a reserve power to control substantial development projects by the private companies in the basic fields of iron and steel-making alone. The Minister will also be responsible for collecting and publishing statistics relating to the industry as a whole.

40. There will be a need for arrangements for appropriate consultation and co-operation between the nationalised and private sectors. The precise form of these arrangements will be a matter for consultation between the two sectors of the industry, the trade unions and the Government, but the Government envisage that there might be established on a non-statutory basis:

(a) An advisory committee including representatives of the two sectors of the industry, the trade unions and Government Departments, to provide for the participation of the whole industry in national economic planning.

(b) A joint forum between the nationalised and private sectors to discuss matters of a more commercial character which are inappropriate to the advisory committee.

(c) An advisory council on research and development appointed by the Minister of Power and covering both the nationalised and private sectors.

41. The nationalisation measure will specifically permit joint action by the nationalised and private sectors in negotiations about terms and conditions of service and in the fields of safety, health and welfare. The arrangements for the supervision of training in the whole industry by the Iron and Steel Industry Training Board, appointed by the Minister of Labour under the Industrial Training Act, 1964, will not be disturbed.

The Iron and Steel Board and the Iron and Steel Holding and Realisation Agency

42. When the new arrangements described in preceding paragraphs have been brought into operation, there will be no functions for

(8) There will also be about 50 steel founding and 1,200 iron founding establishments outside the nationalised part of the iron and steel industry.
the Iron and Steel Board and the Iron and Steel Holding and Realisation Agency to perform. The nationalisation measure will provide for the dissolution of the Board and the transfer of its property, rights, liabilities and obligations to the Corporation. (Provision will be made to ensure that records relating to the companies which remain in private ownership are not transferred to the Corporation). The Agency will be dissolved by means of a Treasury Order made under the Iron and Steel Act, 1953.

The British Iron and Steel Federation

43. The Government intend that the nationalised companies should withdraw as soon as possible and on equitable terms from the constituent bodies of the British Iron and Steel Federation and that the central trading services operated by the Federation should be transferred to the Corporation. The companies to be nationalised are the predominant users of the central trading services but the Corporation would make them available on equal terms to the private companies if the latter wished.

44. The Government think that the main consideration is in asking the new arrangements should be to ensure in the national interest that the central trading services continue without interruption for the benefit of both the nationalised and private sectors. The arrangements, including contractual arrangements, on which these services are based are extremely complicated and the Government's present knowledge of them is necessarily somewhat incomplete. The Government, therefore, propose that these matters should, in the first instance, be left to negotiation between the Corporation and the Federation. They hope that the Federation will cooperate in the national interest in reaching a settlement which, while safeguarding the legitimate interests of the private sector, will correspond with the realities of a situation in which the central services will be used almost entirely by the nationalised sector of the iron and steel industry. If, however, a satisfactory solution is not reached by negotiation within a reasonable time, Parliament will be asked to enact further legislation.

45. When the nationalised companies have left the constituent bodies of the Federation and the central services have been transferred to the Corporation, it will be for the iron and steel companies remaining in private ownership to decide whether to retain the Federation as their trade association or to make new arrangements.

V. Conclusion

46. An efficient and dynamic steel industry, fully co-ordinated into the Government's general economic plan, is of paramount importance to the country. The proposals in this White Paper are designed to enable the industry to realise its full potential in the national interest. But legislation is only a beginning. Full success in achieving the objectives will require a major effort from all concerned.

Ministry of Power.

5th April, 1965.
<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>PRODUCTION JULY 1963/JUNE 1964</th>
<th></th>
<th>CAPACITY 1965</th>
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<tr>
<td></td>
<td>TOTAL ('000 tons)</td>
<td>14 MAJOR COMPANIES* ('000 tons)</td>
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<tr>
<td>IRON ORE</td>
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</tr>
<tr>
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<td>PLATE</td>
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<tr>
<td>SHEET</td>
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<td>1,176</td>
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<tr>
<td>BRIGHT STEEL BARS</td>
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<td>60</td>
<td>10 ⅔</td>
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</table>

*This column shows the production of the 14 major companies together with the production of their subsidiaries and of companies in which the 14 major companies collectively have a majority interest.
Summary of Proposed Compensation Provisions

The National Steel Corporation will be empowered to direct the disclaimer of any agreement or lease entered into by a company coming into public ownership, where the Corporation consider that the agreement or lease was unnecessary for the purpose of the company's business or was entered into by the company with unreasonable lack of prudence, regard being had to the circumstances at the time. This power will be available in relation to any agreement or lease made or varied on or after the 4th November, 1964 and before vesting date.

2. The Bill will contain provisions about the payment of interest or dividends by the 14 companies listed in paragraph 18 of the White Paper in respect of periods between the date of publication of White Paper and the vesting date. Defined limits will be applied to the rate of any dividend or interest paid by any of these companies in pursuance of a resolution of the directors passed after the date of publication of White Paper in respect of the last complete financial year before that date or any subsequent period before the vesting date. If such a resolution has authorised the payment of any dividend or interest, in respect of that financial year or period, at a rate exceeding the maximum rate permitted by the Bill, the directors of the company will be made personally liable to the National Steel Corporation to repay the amount of interest or dividend paid out by the company in excess of the permitted rate.

The maximum rates of interest or dividend permitted by the Bill for the above purposes will be formulated as follows (regard being had in either case to any previous payment of interest or interim dividend for the same year or period):

1. **Interest on Loan Capital**
   The permitted rate is that which is the minimum necessary to prevent the company from defaulting in respect of its obligations.

2. **Dividends on Share Capital**
   Dividend must be paid only out of the company's net revenue (as certified by the company's auditors) for the year or period to which the dividend relates or, in accordance with normal practice, from the company's
dividend equalisation account or other reserve maintained for the like purpose; out that net revenue may, in the case of cumulative preference shares, be applied towards making good the shareholders' accumulated right to participate in the profits of previous years. Subject to the foregoing, the maximum permitted rates of dividend are as follows:

(i) Ordinary Shares

The rate, calculated as an annual rate, paid (otherwise than as a capital dividend) in respect of the last financial year in respect of which a dividend was paid before the date of publication of White Paper on the same class of shares.*

(ii) Preference Shares

The minimum rate required to enable the company to pay, in accordance with the constitution of the company and the rights attaching to the various classes of securities, the permitted rate on the ordinary shares (see (i) above).

In the case of securities issued after the date of publication of White Paper either at a price below market value or free, the Minister of Power will have power to direct that the maximum permitted rate of interest or dividend on these securities is to be less than that stated under heads (1) and (2) above, or that no payment of interest or dividend is to be permitted.

Any payment, however described, by a company to its members in their capacity as members, if made out of the net revenue of the company, will be treated as a payment of dividend for the purposes of the foregoing provisions.

References above to payments of interest or dividend are to be construed as references to the gross amount in question, that is to say, the amount of the interest or dividend before deduction of tax. Any payment expressed to be made free of tax will be treated as a net amount paid after deduction of tax and will require to be grossed up accordingly, the limiting provisions of the Bill applying to the gross amount.

3. The Bill will contain provisions whose combined effect is to secure that the principal assets as at the 4th November, 1963 of the 14 companies listed in paragraph 18 of the White Paper will fall into the ownership or ultimate control of the National Steel Corporation notwithstanding any intermediate assignment of such assets to other companies or persons.

For this purpose, the Minister will be given power to serve a notice on any company, not being one of the 14 companies, bringing it into public ownership either in addition to, or in substitution for one or more of, the 14 companies. The circumstances in which this power can be exercised are that:

* In the case of any shares on which a final dividend has never been paid, the rate will be such as the Minister of Power may approve.
(1) the company in question for the time being owns or operates any iron or steel works which on or at any time after the 4th November, 1964 were owned or operated by one of the 14 companies or by one of their subsidiaries, or

(2) the membership of the company was on the 4th November, 1964 such that, if it had not subsequently changed, the company would have come into public ownership under the Bill.

If a company is brought into public ownership under this procedure, the compensation and safeguarding provisions of the Bill will apply, and be deemed always to have applied, to it in the same way as they apply to the 14 companies: in particular, the date on which the securities of the company vest in pursuance of the Minister's notice will be treated as "the vesting date" in relation to that company for all purposes of these provisions.

The corollary of the above-mentioned power is that of excluding one or more of the 14 companies from coming into public ownership, if since the 4th November, 1964 it has ceased to own or operate any iron or steel works, or to have any subsidiary which does so. This power also will be conferred on the Minister and will be exercisable by the service of a notice on the company concerned.

4. If at any time after the 4th November, 1964 and before the date on which it comes into public ownership, a company has entered into any transaction involving the assignment of a right of ownership or user in respect of works, a right to any invention or design, or a right to iron ore in the ground, the Corporation will be enabled under the Bill to serve a "notice of acquisition" on the current owner of the right concerned and compel its re-transfer to the Corporation or one of the publicly-owned companies. Similar provisions will apply to rights transferred by subsidiaries of companies which come into public ownership. Compensation in the form of Government stock will be paid in appropriate cases to the person from whom the asset is recovered.

5. The Bill will contain provisions protecting the National Steel Corporation against losses due to transactions taking effect after the date of publication of White Paper and resulting in the dissipation of a company's assets before it comes into public ownership. The transactions covered by these provisions are: reduction of share capital by abnormal payments to members; premature redemption of securities; payment to holders of securities out of the company's capital and assignment of the company's assets to, or for a consideration payable to, holders of the company's securities. Personal liability for any loss suffered by the company may fall on directors who have been party to any of the above transactions and, in certain circumstances, on the other parties to the transactions.

6. Provision will also be made enabling the National Steel Corporation to recover any losses sustained as a result of certain other transactions entered into by companies which come into public ownership under the Bill after the date of publication of White Paper and resulting in dissipation of their assets. Such transactions include payments, or assignments of assets, without consideration or for an inadequate consideration; and unduly onerous or imprudent contracts whose disadvantageous character substantially outweighs any benefit accruing therefrom to the company. Again,
personal liability to repay to the Corporation the amount of any loss occurring to the company from such transactions will attach to any persons who were parties thereto, including the directors of the company.

7. Transactions such as are mentioned in paragraphs 1 to 6 above will be excluded from the effect of the safeguarding provisions if they have been approved by the Minister of Power (either before or after the Bill passes into law). The Minister's approval will normally be effective for this purpose even though given subsequently to the transaction in question. This, however, will not apply in the case of payments of interest or dividend above the maximum permitted limits (see paragraph 2 above); for such payments, the Minister's approval must be sought in advance.

8. The Bill will contain provision for arbitration, on the lines adopted by the Iron and Steel Act, 1949, in cases of dispute as to the applicability of the safeguarding provisions to particular circumstances and, in particular, as to the personal liability of directors and other persons on account of their participation in transactions to which the safeguarding provisions are found to apply.

9. The question which companies "come into public ownership" for the purposes of the safeguarding provisions will be determined by reference to a definition, to be comprised in the Bill, of the expression "publicly-owned company". This expression will not be confined to the 14 companies whose securities vest in the National Steel Corporation by virtue of the Bill, but will include certain subsidiaries and associated companies. After nationalisation, a company will be "publicly owned" if it is one of a group of bodies corporate to which both of the following conditions apply:-

(a) every body corporate in the group is either the National Steel Corporation or a subsidiary of the Corporation, and

(b) every member of every company in the group is (by direct or nominee shareholding) either the Corporation or another company in the group.

Any company which becomes "publicly owned" within the meaning of the above definition will be treated as "coming into public ownership".

10. "Works" will be defined so as to cover:

(1) factories, mines, quarries or premises used for storage, transport or distribution or the supply of electricity or other forms of power.

(2) machinery or equipment installed in, and land occupied for the purposes of, such factories, mines, quarries or premises.

5th April, 1965
CABINET

MILITARY AID TO INDIA AND PAKISTAN

Memorandum by the Secretary of State for Commonwealth Relations

The annexed memorandum sets out the background against which I ask the Cabinet to agree to certain military aid to India and Pakistan.

2. Decisions on these matters are of the greatest political importance. In 1962 the previous Government took immediate steps to assist India in face of a Chinese attack and since then we have repeatedly, in the Nassau and Birch Grove communiques, in the House of Commons, and in the communiqué after Mr. Chavan's visit last November, given an assurance that we would assist India to meet any attack from China. It is particularly important after the explosion of the Chinese atomic bomb that Indian public opinion should continue to feel assured that in the last resort she can count upon the West for assistance. If we refuse to give further military aid at this stage the political effect on India would be very great, not least because India has such high expectations of support from a Labour Government.

3. The proposals which I now make are, in my view, the minimum necessary to achieve our political objectives. These are:

(a) to maintain close and friendly relations with India;
(b) to continue to have an effective voice in India's defence plans and policies;
(c) to ensure that, as far as we can, India's resources against a possible Chinese attack should be effectively deployed;
(d) to remain in partnership with the United States in pursuing these policies;
(e) to set some limits to the increase of Soviet influence in the armed forces and as far as possible to ensure that the Indian forces remain British equipped.

4. What we do for India will have important effects on our relations with Pakistan. Unless we heed Pakistani susceptibilities and are prepared to help them with their problems, especially in the naval field, we shall in trying to achieve our objectives in India find ourselves making an enemy of Pakistan. Military aid to India and Pakistan must therefore be regarded as one problem.
5. What is proposed is a modest expenditure in relation to the vital political issues at stake. We spend large sums to sustain our policies East of Suez. If we lose India or Pakistan we should be suffering a political set-back which could not fail to affect our whole position East of Suez which we are at present maintaining at such cost.

6. The implementing of any decisions to give military aid to India and Pakistan will need most careful handling in a rapidly changing situation. To announce military aid to India at this stage, when President Ayub is about to visit Moscow, would be a tactical error. We have somehow to re-assure the Indians that we propose to help them without giving the Pakistanis an occasion for a further outburst against us. Moreover, the Americans are still considering what line they should take with President Ayub during his visit to Washington from 25th April. We must clearly concert our tactics with the Americans.

7. We must have special care about presentation with our own creditors in mind. The proposals I have made about Hunters in paragraph 22 of the attached memorandum and about the other items in paragraph 23 are designed to help in this connection.

8. I recommend to my colleagues that we agree, as regards India,

(a) to offer to finance the construction of an Oberon submarine (£4½ million) on ten-year credits. It should be possible to arrange with the Indians to delay publicity for some weeks;

(b) to explain to the Indians that our offer to finance the submarine is made on the assumption that they do not intend to purchase submarines or frigates from Russia;

(c) to explain our difficulties in releasing a Daring at this stage, or of suggesting an economic and acceptable alternative arrangement for escort; and to say that we are continuing to examine the situation in the light of our defence review;

(d) to accept that India has a reasonable requirement for thirty refurbished Hunter fighters; to agree to provide as a gift the four to be completed in 1965-66 at a cost of £0.5 million and to assure the Indians (as we did in the case of the Leanders) that we will consider sympathetically the question of financing the balance in due course on ten-year credits. This will amount to a commitment, but it will be unnecessary to give any publicity to this transaction this year. It will be necessary to give some form of assurance to Hawkers that they will get paid for all thirty.
9. I also recommend that we agree, as regards Pakistan:

(a) to offer to finance the construction of an Oberon submarine (£4½ million) on ten-year credits, leaving me discretion to settle the timing of negotiations with the Pakistanis;

(b) to make no offer at present to Pakistan on escort vessels;

(c) to offer certain radar and electronic equipment to Pakistan up to a total of £1 million, to be financed on ten-year credit.

A. G. B.

Commonwealth Relations Office, S. W. 1.

5th April, 1965
ANNEX

MILITARY AID TO INDIA AND PAKISTAN

Following the Chinese attack on India in October 1962, the United Kingdom Government, for the first time, gave military aid (£19 million agreed at Nassau, and subsequently further aid in 1963 amounting to £8 million and in 1964 to £5 million) to strengthen India's defences against China. We have not committed ourselves to a long-term programme of military aid. But we have agreed that the Indian five year defence plan, which has been reduced to take account particularly of United States criticisms, is reasonable in the light of the Chinese capacity to attack.

2. The Indian Armed Forces are still basically British equipped. India is receiving adequate assistance to cover purchases from the Soviet bloc and from the United States, but the financing of sterling purchases presents difficulties for India. The Indians have, for instance, asked for help in financing the purchase of up to forty Hunter fighters (£4½ million). We must expect other requests. In the field of military training and technical assistance we can for a small expenditure achieve important results.

3. The provision of thirty refurbished Hunter aircraft can be justified, at a cost of a little over £3 million, to replace expected attrition in the Indian Hunter squadrons over the next few years. Unless India places an order for them now, there is a danger that they will soon be unobtainable, as the last secondhand Hunters coming on to the market are disposed of. Hunters are the backbone of the Indian fighter force. If they are not maintained at their present strength, the Indian pressure for newer and faster planes (e.g. F. 5s from the Americans, MiG 21s from the Russians and help from us for the HF. 24 engine) will increase. Only four of the thirty Hunters could be delivered in 1965-66. In the public presentation of any help we give to the Indians in acquiring these Hunters we must take account of the angry reaction from the Pakistanis which will be provoked, but this reaction would be much stronger if more modern aircraft had to be provided.

4. The Indian Navy presents a particular problem. Expenditure on it cannot be justified by the threat from China, but the replacement of its over-age ships has become urgent if its efficiency and morale is to be maintained. Partly to check Soviet influence in India and the Indian Ocean, and partly to maintain links between the British and Indian Navies, we offered last year finance for the reconstruction of the Mazagon dockyard and the building of Leander frigates (at a total cost of £13.66 million of which £4.7 million has been promised over the next four years).

5. The Indians now want help to finance the building of a submarine (£4½ million), necessary for effective anti-submarine training, and the provision of escorts on loan or acceptable terms to bridge the period until the Leanders are ready. They have already received attractive offers from the Soviet Union for these items, which the Indian Government will be under strong pressure to accept, unless we meet these Indian requests.
6. As for interim escorts, India has pressed us hard for Daring-class ships, but our own needs make it impossible for us to supply them. An examination is being made of whether other escort vessels can be made available after refit, but it is doubtful whether it is a justifiable use of our resources to refit such ships, if indeed they can be made available, at such a high cost for interim use for a short period.

Arguments for Military Aid to India

7. The Chinese have a capacity to deliver a strong attack against India in the mountains. It is of the greatest importance to the West that India should be in a position to meet any Chinese attacks in the frontier areas and to prevent them from escalating into a major war.

8. This is relevant to another major issue for us, i.e. that India may wish to develop an atomic bomb. To the extent that India is confident that the material aid she is receiving is adequate to enable her to meet any conventional Chinese attack, it is arguable that the pressure to build an atomic bomb may be reduced. These two considerations have particular weight in respect of the proposed provision of Hunter aircraft.

9. The Indian five-year defence plan postulates an expenditure of £30 million per year on purchases from sterling sources. India can meet this expenditure from military aid, use her foreign exchange resources to the detriment of her economic development (which she is bound in any case to do to some extent), change to United States or Soviet equipment or reduce her defence expenditure to the detriment of her preparedness to meet a Chinese attack; or any combination of these. We have both an economic and political stake in her economic development, her remaining basically British equipped and in her effective defence against China.

10. A judicious aid programme will weight the scales in favour of British equipment for the Indian forces as a whole. It might be in our economic interest to commit further resources to military aid to India and Pakistan to the extent proposed, as this should lead to continued orders to Britain from India's free foreign exchange of larger sums, which would otherwise begin to be diverted to other sources of supply.

11. British influence in India remains strong. But India is now, after eighteen years of independence, less influenced in Britain's favour by the ties of history, the legacy of administration or even by a common language. We now have to deal with an India less overlaid by British influences. We give about 5 per cent of India's present economic aid, which is far less than the United States and rather less than the Soviet Union and West Germany are now giving. Our expressions of support for India will require to be translated into practical assistance if they are to be made effective; and military aid has a particular political significance.
12. The United States Government expects us to continue to be associated with them in giving military aid to India; indeed this is an important element in our co-operation with the United States in Asia. In particular they have limited their aid to equipment for the Army and Air Force directly related to the Chinese threat from the North, and have looked to us to prevent the Indian Navy turning to the Soviet Union. This is important if we are to maintain our influence on the nature of United States defence aid to India.

13. The Soviet Government are giving substantial economic aid to India. They are also assisting the Indian AirForce. They have offered tanks to the Indian Army and ships (including three modern submarines) to the Indian Navy; only a limited number of old light tanks have yet been accepted. The Indians see value politically in accepting Soviet military aid since it emphasises their policy of non-alignment and Soviet opposition to the Chinese. While a small increase in Soviet aid may not be significant in itself, because of the advantages of a single source of military equipment it might start a swing to dependence on Soviet sources of supply.

14. It is the policy of Her Majesty's Government to encourage a United States naval presence in the Indian Ocean, and conversations with the United States about the establishment of joint support facilities on the Diego Garcia have made some progress. The United States could justifiably claim this was scarcely consistent with apparent indifference on our part to the establishment of Soviet naval influence in the Indian Navy, with all that this might imply.

Arguments for Military Aid to Pakistan

15. Pakistan has been our ally in CENTO and SEATO for ten years. She has received military aid from the United States but none from us. She sees aid to India as a danger to her neighbours and is convinced that arms aid to India has been responsible for the refusal of the Indians during the last two years to make any significant attempt to find a basis for the solution of outstanding differences between the two countries. We offered Pakistan last July specified military equipment for the Pakistan Army and Air Force to attempt to mitigate Pakistan's hostility to our policies and to try to improve our relations with Pakistan, and we set aside £3 million for the purpose. We have, however, been unable so far to engage the Pakistans in staff talks on the subject and no commitments have yet been entered into. Meanwhile the Pakistanis have asked for help with their Navy, which they cannot get from the United States. They face a naval replacement problem even more acute than that of the Indians as it affects their entire escort fleet. If we give further assistance to the Indians the Pakistanis will expect comparable help.

16. The Pakistanis have made it clear that they are determined to acquire a modern submarine (irrespective of whether India makes similar purchases). They are seeking help from other countries, including it is believed the Soviet Union, the United Arab Republic, France and Japan, but they would be interested in building an Oberon submarine in this country if we could help with finance, totalling £4 2 million. As regards escort vessels, previous negotiations for
Battles failed because we could not offer them refitted at a low enough price. If we offer no escorts to India immediately we would need to make no offer on escorts to Pakistan at this stage. Pakistan also has an urgent requirement for radar and electronic equipment, which is not available under United States aid programmes, and which we have supplied to India on a considerable scale. The cost of this equipment would be about £1 million. The Oberon submarine and the radar and electronic equipment might be offered to Pakistan in replacement of the offer of equipment made to Pakistan last July.

Timing

17. We undertook to Mr. Chavan, the Indian Minister of Defence, to reconsider our future proposals for military aid to India in the light of our defence and financial reviews. Decisions are now urgently needed, in particular because the order for a submarine must be placed soon, if delay in building is to be avoided, and Hawkers are pressing for a decision on Hunters.

Method of Financing

18. Until 1964, our military aid to India has taken the form of gifts, but in 1964 the £4.7 million provided by us for the Leander frigate project took the form of a Defence Credit for ten years at our normal lending rate and with no grace period on repayments. It is proposed that the provision of the Oberon submarines to India and Pakistan and the radar and electronic equipment to Pakistan should be financed by Defence Credits on the same terms. The expected phasing of disbursements from our existing commitments and from those now proposed is set out in the Appendix.

19. It is of course true that India’s balance of payments prospects and also those of Pakistan are such that they should not accept any medium-term credits of this sort and all their creditors are currently under pressure to re-finance the servicing of loans given to them in the past for economic development. We may similarly have to re-finance the Defence Credits proposed as they fall due for repayment. Nevertheless there is advantage in using Defence Credits in this field. This should reduce the appetite of India and Pakistan for defence aid. The United States Government are financing half their defence aid to India in this way. There is value in maintaining the principle established in the case of the Leander frigate project and in fact we are a good deal less likely to be asked to re-finance Defence Credits than loans for economic development provided under the auspices of the India Consortium.

20. What is proposed would impose little direct charge on our balance of payments. Resources would, however, be employed which might be otherwise deployed to the advantage of our economy and perhaps in part on exports for which we would obtain cash and there could thus be indirect effects on our balance of payments. On the other hand the shipbuilding and aircraft industries are likely to be under less strain than others.
The text on the page is not visible. Please upload another image or provide the text if available.
21. We cannot cut down our economic aid to India and Pakistan to help balance defence aid to them without doing serious damage to their economy, which needs all the balance of payments support it can get. Indeed our economic aid to both is likely to have to be increased in future years.

22. It is of course important to convince our own creditors that we are taking effective steps to correct our balance of payments, particularly at this time. Public presentation is thus of great significance. It might help in this connection if we avoid a public announcement about the Hunters. We could do this by confining our definite commitment to the four Hunters to be completed in 1965-66 and by financing these at a cost of £0.5 million from the balance of aid on a gift basis still remaining from previous defence aid programmes, which has been set aside to cover contingencies and possible increases of cost. In that event it may prove necessary perhaps next year to ask the Chancellor of the Exchequer to replace this amount to enable any unexpected contingencies to be met from aid funds. It would also be necessary to give some assurance to the Indians that we shall consider favourably the financing of the balance of twenty-six Hunters in the next two financial years.

23. It should also be possible to avoid any publicity about the Oberon submarines and the radar and electronic equipment for Pakistan for some weeks.

Liaison with America

24. The decision should be communicated to the United States before anything is said to the Indians or Pakistanis. If the decision is against any further military aid commitments to either India or Pakistan, it is important that the United States should be informed in case they may wish to reconsider their present position. We are informed that this is unlikely, but they should at least be given the opportunity. Moreover, they have a right to know in advance, since there would be implications for their plans in the Indian Ocean. If the decision is to give some further aid to India, with or without any counter-balancing aid to Pakistan, presentation and timing would need to be considered in relation to President Ayub's visit to the United States in the last week of April.
**Estimated Disbursements on Military Aid to India and Pakistan**

1. **Nassau Programme (£19 million)**
   - Army: 10,700,000 arrived by 31.12.64, 1,000,000 due in January
   - Air Force: 4,222,000 arrived by 31.12.64
   - Balance still to arrive: 2,200,000
   - Other costs already met: 300,000

Many items were supplied from Government stock. The replacement costs have not been incurred in all cases yet; nor have the interdepartmental transactions been completed.

2. **Birch Grove Programme (1963) (£8.06 million)**
   - Army: 13,000
   - Air Force: 700,000
   - Technical Aid: 500,000
   - Balance still to arrive:
     - Filling Factory: 500,000
     - Army: 2,200,000
     - Air Force: 3,120,000
     - Technical Aid: 547,000

3. **Third Programme (1964) (£5 million)**
   - No equipment has yet been delivered.

4. **Total British Commitment to date = £32 million**
   - 19 Nassau
   - 6 Birch Grove
   - 5 3rd Programme
   - £32 million

Total items so far agreed with Indians and earmarked:
- Nassau: 18,587,000
- Birch Grove: 6,060,000
- 3rd Programme: 3,943,000

Total: £30,590,000
There thus still remains a little under £1½ million to meet any increases in costs in replacing items supplied, to cover other training costs and to meet contingencies and additional requests from the Indians. This figure includes about £0.5 million in reserve from the Nassau programme. The amounts approved are thus virtually committed.

5. Payments by the Commonwealth Relations Office so far total about £16 million, leaving outstanding payments (including inter-departmental transactions) of about £16 million.

6. In addition we have agreed to provide a credit of £4.7 million for the first four years' sterling expenditure on the Leander frigate project. No payments have yet been made.

7. The following table sets out the commitments, deliveries (assumed to have been paid for), and probable disbursements if the proposals now made are accepted.

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<thead>
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<th></th>
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<tr>
<td><strong>Existing Commitments</strong></td>
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<td>£1⁷⁄₈m.</td>
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<tr>
<td>(deliveries £16.3m.)</td>
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<td>£4m.</td>
<td>£2m.</td>
<td>£1m.</td>
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<tr>
<td>(deliveries £1.2m.)</td>
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<tr>
<td>1964 3rd Programme £5m.</td>
<td>£⁷⁄₈m.</td>
<td>£2m.</td>
<td>£2m.</td>
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<td>£1m.</td>
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<tr>
<td><strong>Proposed New Commitments</strong></td>
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<tr>
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<tr>
<td>4 Hunters</td>
<td>£.5m.</td>
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<td>£.5m.</td>
<td>£.3m.</td>
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(a) - of which £7 million already in pipeline
(b) - of which £5½ million already in pipeline
(c) - of which £4.7 million already in pipeline
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<td></td>
<td>£10.2m.</td>
<td>£9.5m.</td>
<td>£7m.</td>
<td>£3½m.</td>
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<td>(a) - of which £7 million already in pipeline</td>
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CABINET

BBC FINANCE

MEMORANDUM BY THE POSTMASTER-GENERAL

The BBC's financial problem

The Corporation have been committed by decisions of the previous Government, following the report of the Pilkington Committee, to undertake major expansion of their services, namely:

(a) BBC-2;
(b) self-contained television services for Scotland and Wales;
(c) more hours for sound broadcasting;
(d) more adult education programmes; and
(e) a start on colour television.

Except for colour television these decisions, which were generally welcomed when they were announced, have been implemented.

2. The previous Government said, in its first White Paper on the Pilkington Report (Cmd. 1770, paragraph 59):

"The proposals . . . will mean increased BBC expenditure. The Government accepts its responsibility to see that the BBC can secure sufficient income to finance adequate services."

This undertaking was not fulfilled.

3. The present fees are £4 for a combined television and sound licence (the charge to the public of £4 has remained unchanged since 1957) and £1 for a sound only licence (unchanged since 1946). The BBC are now using their borrowing powers to balance their accounts and they say that a £6 combined licence fee is essential if they are to meet their financial commitments (£1 15s. of the increase would be to meet the cost of the new developments authorised by our predecessors). They are also asking for the sound only licence fee to be increased to £1 5s. The changes in the licence fees since the war are shown in Annex 1. The BBC's estimates (summarised in Annex 2) show that if the BBC's present commitments were to be maintained

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without an increase in licence fees their cumulative deficit would grow as follows:

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<tr>
<td>£ million (at year end)</td>
<td>-10</td>
<td>-25</td>
<td>-52</td>
<td>-87</td>
<td>-125</td>
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</tbody>
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Proposed increases

4. At its meeting on 1st April the Ministerial Committee on Broadcasting considered my paper on Broadcasting Development in which I argued that unless my colleagues were prepared to consider radical changes there was no alternative but to increase the combined sound and television licence fee to £6 and the sound only licence fee to 25s. as the BBC have proposed, and to pay over to the BBC the whole of the net proceeds. The Committee also had before them a paper by the Chief Secretary to the Treasury drawing attention to the rate at which the BBC's financial position is deteriorating and urging the need for an early decision.

5. The Committee concluded that an increase in the combined fee beyond £5 would be generally regarded as incompatible with our incomes and prices policy. We decided to recommend to Cabinet, as an interim measure, that the combined sound and television licence fee should be increased to £5 and the sound only licence to £1 5s. This will enable the BBC to contain their deficit for some two years.

6. We recommend that, meanwhile, there should be a review of the BBC's finances and development plans; and that, as a first step, the BBC should be asked to make available to us the report which, at the BBC's own request, Messrs. Urwick, Orr and Partners, a leading firm of management consultants, made about three years ago on the BBC's efficiency controls. The review, which should be completed by July, would enable us to judge what, if any, further measures we should need to take to deal with the BBC's financial problem.

7. An interim decision to increase the licence fee only to £5 carries with it, of course, the need to restrict the BBC's commitments. So, pending the outcome of the review. I would not authorise a start in colour television; nor would I allow any increase in the number of hours of television broadcasting either for the BBC or for independent television. Incidentally, this would reserve unused broadcasting time on all the existing general services for any experiments in educational broadcasting, which the Secretary of State for Education and Science may wish to mount. I do not however propose at present any restriction on the BBC's plans for continuing to expand the geographical coverage of BBC-2.

8. Hitherto the BBC revenue has been annually reinforced by the growing number of viewers. However these have now reached a plateau, and in future increased BBC revenue will depend upon increases in the size of the licence fee itself. Even after a £6 licence—which would last till the late '60s—an increase of 10s. per year
has been estimated as necessary. It is this problem, as much as the short-term problem, that has convinced the Ministerial Committee that a more fundamental examination is required, and that other measures for meeting rising expenditure may have to be considered.

Savings facilities
9. I recognise that any increase in the licence fee would bear very hard on poorer people. I therefore proposed—and the Committee endorsed this proposal—to introduce a special card, obtainable at any Post Office, on which people could stick the required number of National Savings Stamps until they had saved enough to exchange the card for a licence (one 2s. 6d. stamp a week for 40 weeks would be sufficient for a £5 fee). The cards would be introduced on the same day as the new licence fees and I would announce their introduction at the same time as the new fees were announced.

Questions for decision
10. Above all we cannot allow the public service broadcasting system to be destroyed for lack of finance. An early announcement is essential and I should like to make a statement in the House of Commons (Annex 3) on 14th April. I accordingly invite my colleagues:

(i) to endorse the conclusion of the Ministerial Committee on Broadcasting that, as an interim measure, the combined sound and television licence fee should be increased to £5 and the sound only licence fee to £1 5s.;
(ii) to agree that further consideration should be given to the problem of the BBC’s income and expenditure following a financial review to be completed by July;
(iii) to endorse my proposal to introduce a special card on which National Savings Stamps can be saved towards licences; and
(iv) to consider my proposed statement (Annex 3).

A. W. B.

8th April, 1965.
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A. W. B.

8th April, 1965.
## ANNEX 1

### CHANGES IN BROADCAST RECEIVING LICENCE FEES

<table>
<thead>
<tr>
<th>Year</th>
<th>Sound only</th>
<th>Television and sound</th>
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<tbody>
<tr>
<td>1946</td>
<td>£1</td>
<td>£2</td>
</tr>
<tr>
<td>1954</td>
<td>£1</td>
<td>£3</td>
</tr>
<tr>
<td>1957</td>
<td>£1</td>
<td>£3 (fee) £1 (duty)</td>
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<tr>
<td>1963</td>
<td>£1</td>
<td>£4 (fee)</td>
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Note: £ denotes British Pound.
ANNEX 2

BBC HOME SERVICES

ESTIMATE FOR FIVE YEARS TO 31ST MARCH, 1969

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<tr>
<td>INCOME</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Licence numbers</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total number of licences</td>
<td>16,100</td>
<td>16,200</td>
<td>16,350</td>
<td>16,500</td>
<td>16,600</td>
</tr>
<tr>
<td>Combined sound and television included therein</td>
<td>13,250</td>
<td>13,650</td>
<td>13,950</td>
<td>14,250</td>
<td>14,450</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
<th>£000</th>
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</thead>
<tbody>
<tr>
<td>Gross licence revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total licences @ £1 to 31.3.65 and £1 5s. thereafter. Combined licences @ £3 to 31.3.65 and £4 15s. thereafter</td>
<td>56,150</td>
<td>85,087</td>
<td>86,700</td>
<td>88,312</td>
<td>89,388</td>
</tr>
<tr>
<td>Deduct: Post Office expenses</td>
<td>3,200</td>
<td>3,350</td>
<td>3,500</td>
<td>3,650</td>
<td>3,750</td>
</tr>
</tbody>
</table>

| Income receivable from the Postmaster-General | 52,950 | 81,737 | 83,200 | 84,662 | 85,638 |
| Net revenue from publications, television enterprises, interest, etc., less tax | 700 | 556 | 690 | 645 | 577 |
| Defence contribution | 155 | 597 | 685 | 516 | 295 |

| Total income | 53,805 | 82,890 | 84,575 | 85,823 | 86,510 |

| EXPENDITURE |         |         |         |         |         |
| Operating    |         |         |         |         |         |
| Sound        | 15,875  | 17,636  | 18,711  | 19,502  | 20,356  |
| Television   | 35,276  | 40,866  | 47,506  | 53,639  | 59,912  |

| Capital and non-recurrent |         |         |         |         |         |
| Sound        | 2,920   | 2,116   | 2,062   | 1,936   | 1,355   |
| Television   | 8,692   | 9,284   | 13,211  | 12,807  | 8,340   |

| Total expenditure | 62,763 | 69,902 | 81,460 | 87,884 | 89,963 |

| SURPLUS OR DEFICIT (―) FOR YEAR |         |         |         |         |         |
| Surplus or deficit (―) at beginning of year |         |         |         |         |         |
| Surplus or deficit (―) at end of year |         |         |         |         |         |

| CONFIDENTIAL |         |         |         |         |         |
With permission, Mr. Speaker, I should like to make a statement about BBC finance. The BBC were committed by decisions of the previous Government, following the report of the Pilkington Committee, to undertake major expansion of their services. They have represented to me that a £6 combined sound and television licence fee is essential if they are to meet their financial commitments. They are also asking for the sound only licence fee to be increased to £1 5s. The Government has decided that the problem of BBC finance requires further study and I shall be asking the BBC to co-operate in our review. Until our review is complete I shall not authorise any increase in hours of broadcasting (whether for the BBC or for independent television), nor can there be a start in colour television. But it is not enough to rely upon negative measures alone. We cannot allow public service broadcasting to be destroyed for lack of finance and, as an interim measure, I shall therefore be laying before the House shortly after the Easter Recess proposals to increase the licence fees, from 1st August, 1965, to £5 and £1 5s. In order to make it easier for people to save towards licences, I shall therefore be introducing, also on 1st August, 1965, special cards, obtainable at any Post Office, on which people can stick National Savings stamps to the number required to exchange their card for a licence.
CABINET

TRIBUNALS OF INQUIRY (EVIDENCE) ACT, 1921

MEMORANDUM BY THE LORD CHANCELLOR

The Cabinet, at their meeting on 11th March (C.C. (65) 15th Conclusions, Minute 7), invited me, in consultation with the Lord President, the Home Secretary, the Secretary of State for Scotland, the Chancellor of the Duchy of Lancaster, the Minister without Portfolio, the Attorney-General and the Lord Advocate, to give further consideration to the means by which the operation of the Tribunals of Inquiry (Evidence) Act, 1921, might be improved and to the extent to which an independent inquiry for this purpose might be expected to be of value.

2. We have examined the criticisms that have been made of the procedure under the Tribunals of Inquiry (Evidence) Act and the suggestions which have been made for improving it. Criticism is concerned principally with—

(a) the difficulty which a person who may be involved in an investigation has in defending himself in the absence of anything in the nature of a formal charge and without the procedures and rules of evidence which have been developed in the criminal courts for the protection of accused persons;

(b) the public nature of the proceedings which results in currency being given to allegations against innocent persons some time before they have an opportunity to reply;

(c) the expense to which innocent persons may be put in being legally represented at the inquiry;

(d) the participation of the Attorney-General (or, in the case of inquiries in Scotland, generally speaking, the Lord Advocate) in the proceedings as amicus curiae, which tends to suggest to the public that the Government, some members of whose actions may be under investigation, are acting in the role of prosecutor, and that the proceedings cannot therefore be impartially conducted.

3. We considered that if it were accepted that it is necessary to retain a means of investigating matters of urgent public importance by an inquisitorial procedure, then some improvements

CONFIDENTIAL
might be made in the procedure, for example to make it less difficult for interested persons to prepare and conduct their cases, and to give the tribunal power to award costs.

4. With regard to the participation of a Law Officer (or, in Scotland, the Lord Advocate) in the proceedings, some of us thought that it must be a matter for him, entrusted as he is with responsibility for safeguarding and representing the public interest, to decide in any given case whether he appears or not.

5. Such improvements would be of a minor nature and could be considered by the Government itself without the assistance of an independent inquiry. It was clear to us, however, that criticism arises principally from the inquisitorial nature of the procedure itself, and that the grounds for criticism would not be effectively removed by minor improvements and modifications. Some of us thought that it was necessary for Parliament to retain means of instituting an inquisitorial form of public inquiry, however sparingly it was used, and that such an inquiry was the most effective means of clearing the names of innocent individuals whose reputations had been aspersed. It was pointed out that the safeguards provided by the rules of evidence applicable to criminal proceedings may prevent the whole truth being disclosed and possibly leave the public with the impression that discreditable facts had been concealed. We were agreed, however, that a procedure which, whenever it was used, aroused so much public anxiety on the score of hardship and actual injustice to innocent persons ought not to be retained without examination by a high-powered body in the light of its operation over the 45 years during which it has been in use. We thought that such a body might well consider whether in most, if not all, of the cases in which an inquiry under the 1921 Act would hitherto have been thought appropriate some other procedure might not serve the purpose equally well. We were impressed by the fact that Lord Denning's Inquiry, although held in private, did in fact silence rumours and allay public anxiety without at the same time giving further currency to unfounded suspicions about the conduct of innocent individuals.

6. We think that, for the purpose of the inquiry we have in mind, a small Royal Commission would be the most suitable body. We accordingly recommend that a Royal Commission should be established with limited membership and wide terms of reference on the lines recommended by the Home Secretary in C. (65) 31, but with a clear indication that the possibility of devising alternative forms of investigation should be considered, e.g.—

“To review the working of the Tribunals of Inquiry (Evidence) Act, 1921, and to consider whether it should be retained or replaced by some other procedure, and, if retained, whether any changes are necessary or desirable; and to make recommendations.”

G.

House of Lords, S.W.1.
9th April, 1965.
At their meeting on 8th April, 1965 (C. C. (65) 24th Conclusions, Minute 4), the Cabinet invited me to redraft the White Paper on Steel Nationalisation in the light of their discussion and agreed to give further consideration to the timing of the publication of the White Paper at a subsequent meeting.

2. A revised draft of the White Paper is attached. In general it follows the lines laid down by the Cabinet but there are two points to which I invite the attention of my colleagues:

(a) **Defects of present system**

The lead into Part III (paragraph 10) uses some of the material in paragraph 10 and the first sentence of paragraph 11 of the draft circulated with C. (65) 59, which the Cabinet asked should be omitted. I think that the complete omission of this material would weaken the draft and make it less positive. In particular it would mean omitting the point that there is no practicable method of remedying the defects of the present system by strengthening public supervision with the industry in private ownership.

(b) **Exports**

The Cabinet asked me either to elaborate in detail the ways in which nationalisation would help to increase exports of iron and steel or to give less prominence to this subject. Paragraph 13(c) is an amended and strengthened version of the passage on exports. To include only a passing reference to exports would, I think, be too scant a treatment of this important subject and hardly consistent with the fact that the Bill will impose on the National Steel Corporation a specific duty to promote exports.

3. I ask my colleagues to approve the revised draft of the White Paper.

F. L.

Ministry of Power, S.W.1.

23rd April, 1965
Steel Nationalisation
Draft White Paper

1. Introduction

The Government announced through the Queen's Speech on 3rd November, 1964, that they would initiate early action to re-establish the necessary public ownership and control of the iron and steel industry, in accordance with Election pledges. The First Secretary of State and Secretary of State for Economic Affairs said in the Debate on the Address on 8th November:

"We have considered the contribution which the steel industry will have to make towards economic growth, and we are satisfied that this can best be achieved by re-establishing public ownership and control .... Our intention is to take into public ownership the main part of the iron and steel industry." (Official report, Col. 227).

The First Secretary of State went on to make it clear that within the framework of this broad policy, the Government would welcome constructive discussions with interested organisations.

2. This White Paper describes the Government's legislative proposals to give effect to the policy already announced. During the preparation of their proposals, the Government have had discussions with interested parties, including the Iron and Steel Board, the Trade Unions, the British Employers' Confederation, the Federation of British Industries, the National Association of British Manufacturers, the British Iron and Steel Federation, eight other representative organisations (1) of the industry and a number of individual companies.

II. Background

The Iron and Steel Industry

3. The iron and steel industry includes three main groups of operations apart from the working of iron ore. These are the making of iron, the making of crude steel and the shaping of crude steel into semi-finished and finished steel products. These operations are carried on in some 300 works. Twenty-two of these are integrated works which carry out all three operations and form the core of the industry. Another 30 works make crude steel and shape it; 9 works are concerned only with iron-making; 92 works are "re-rolling" plants which shape semi-finished steel; and about 150 works are specialist units which often straddle the borderline between the steel and engineering industries. Those works are owned by about 260 limited liability companies, nearly all of which are members of the constituent bodies of the British Iron and Steel Federation. The Federation performs the normal functions of a trade association. It also provides important central services for the industry, including, through the British Iron and Steel Corporation Ltd. and its subsidiaries, the import of iron ore and certain other raw materials.

(1) British Federation of Iron and Steel Stockholders; British Shipbreakers' Association; British Steel Founders' Association; Joint Iron Council; National Council of Associated Iron Ore Producers; National Federation of Iron and Steel Merchants; National Federation of Scrap Iron, Steel and Metal Merchants; Steel Distributors' Association.
The Role of the Industry in the Economy

4. The iron and steel industry occupies a focal and dominating position in the British economy. First, it is one of our largest industries. Its sales in 1964 (over £1,000 million) were greater than those of the coal industry. At the end of 1964 it employed over 315,000 people – more than the electricity supply industry. Its capital expenditure on major schemes (including the strip mill expansion programme) over the five years 1960 to 1964 averaged £130 million a year or 11 per cent of all investment in manufacturing industry. Second, the iron and steel industry provides basic materials for British industry. Key industries that are eminent growth points in our economy, depend significantly on steel: among these are the engineering industries, which account for about two-fifths of total output of manufacturing industries. Third, the iron and steel industry is of crucial importance to the export drive. In 1964, manufactured goods containing steel accounted for almost half our total exports: and a further five per cent of the total consisted of exports of iron and steel as such.

Public Supervision of the Industry

5. It has been accepted for more than thirty years that the characteristics of the iron and steel industry and its importance to the national economy require a special measure of public supervision. From 1932 until 1939 this public supervision was exercised by the Import Duties Advisory Committee, which encouraged the establishment of the British Iron and Steel Federation in 1932 and which from 1936, by a voluntary arrangement with the Federation, supervised the prices fixed by the Federation’s constituent bodies. On the outbreak of war in 1939, direct control of the industry was assumed by the Ministry of Supply which itself fixed maximum prices under statutory powers. The Ministry of Supply continued to fix maximum prices after the war; but from September, 1946 until March, 1949, more general supervision over the industry, including supervision of production, distribution, raw materials supplies and modernisation schemes, was exercised under the Minister of Supply by a non-statutory Iron and Steel Board, which also advised on prices.

6. The latter were, however, interim arrangements, superseded by the action of the Government of 1945/1951. That Government decided that the iron and steel industry had such characteristics and involved such a concentration of economic power that it ought not to be left in private hands. They considered too that the existence of a large number of separately-owned undertakings, the boards of which were responsible to their own shareholders, made it "difficult for the industry to achieve the necessary freedom of movement in reorganisation and to change the physical characteristics of many of its undertakings". Moreover, the raising of the very large sums of capital which would be needed for the industry’s expansion programme would be facilitated if they could be raised under Treasury guarantee. The Iron and Steel Act, 1949, therefore provided for the vesting in the Iron

and Steel Corporation of Great Britain of the shares and securities of all but the smallest iron and steel companies. Vesting took place on 15th February, 1952.

7. Despite a lack of co-operation from the British Iron and Steel Federation a start was made in the preparation of plans for the reorganisation of the industry when the General Election of October, 1951 resulted in the return of a new Government pledged to denationalise the industry. On 15th November, 1951, the Minister of Supply (3) gave the Corporation a general direction that they should not make any alteration in the financial structure or management of any publicly-owned companies without the consent of the Minister. This was followed by the Iron and Steel Act, 1953 which provided for the transfer of the iron and steel undertakings and other property of the Corporation to the Iron and Steel Holdings and Realisation Agency, which was given the duty of returning them to private ownership. By 1961 the return of the iron and steel industry to private ownership had been largely completed except for Richard Thomas and Baldwins Ltd., which is still owned by the Agency.

6. The Iron and Steel Act, 1953 also established the present arrangements for the supervision of the industry by an Iron and Steel Board appointed by the Minister of Power. The Board are required "to exercise a general supervision over the iron and steel industry ...... with a view to promoting the efficient, economic and adequate supply under competitive conditions of iron and steel products". In particular, they have to keep under review production capacity, prices and the arrangements for procuring and distributing raw materials and fuel, for research, for the promotion of the safety, health and welfare of employees and for joint consultation on matters of mutual interest to employers and employees other than terms and conditions of employment. Their most important power is to determine maximum prices for iron and steel products. The Board have used this power to set what they regard as reasonable delivered prices, which until recently the steel makers agreed that they would generally charge to their customers. The Board also have power, subject to appeal to the Minister, to control substantial projects for the provision of additional facilities for the production of iron and steel in Great Britain. They have reserve powers (a) to arrange for the import or distribution of raw materials or the import of steel products and (b) to make grants and loans for research relating to the iron and steel industry and for the training and education of persons employed in that industry.

9. The Minister's powers under the Iron and Steel Act, 1953 are limited. He can require the Board to determine a maximum price or to vary a determination; he has a reserve power to provide or arrange the provision of production facilities which are required for the efficient, economic and adequate supply of iron and steel products and which the industry is unable or unwilling to provide; he can acquire production facilities which it is proposed to close or he can arrange with other persons to keep them in use; and he can direct the Board to exercise their power to arrange the import of steel products. The only one of these powers which the Minister has in practice used is the power to arrange for the provision of production facilities, and this only to make loans to Colvilles Ltd. and Richard Thomas and Baldwins Ltd. for the provision of additional strip mill capacity.

/III.

(3) The Rt. Hon. Duncan Sandys, M.P.
III. Defects of the Present System

10. The Government do not believe that the system of private ownership in the main part of the steel industry, combined with the present form of public supervision, or indeed any workable variation of such supervision, can be reconciled with the national interest and with the proper functioning of private enterprise itself. There are three reasons for this. First, the steel industry has a dynamic and positive role to play in sustaining a satisfactory rate of general economic development and the balanced distribution of such development between regions. The powers of the Iron and Steel Board are, however, essentially negative. They cannot, within limits, prevent action which is contrary to the public interest; they cannot insist on positive developments which are in the interest of the nation but which, for commercial reasons, individual companies may be unwilling to undertake. Conflict between the requirements of private enterprise, with its responsibilities to its shareholders, and the requirements of the public interest, has arisen in the past and is, in the nature of things, likely to recur in the future so long as the industry is in private hands. Thus, there were differences of view about the timing and location of the provision in recent years of the new strip mill capacity in South Wales and Scotland; and a settlement of these problems was achieved only with Government intervention and the injection of public funds on a large scale. While adequate capacity has now been created to cover requirements for some years ahead, new decisions will have to be taken in that period. It is, in the Government's view, wrong to allow a situation to persist in which effective plans to meet these vital needs should continue to be dependent on the initiative of private interests; and in which state control over the industry results in the granting of substantial and perhaps exclusive, privileges to particular private concerns.

11. Secondly, difficulties have arisen over the financing of expansion programmes. Over the past ten to fifteen years public money totalling over £400 million in aggregate has been provided to the steel companies. With the growth in the size and complexity of units, the cost of major projects in the steel industry is high and increasing. A single new large integrated works may cost over £150 million - substantially more than the cost of a nuclear power station. There are difficulties in raising private funds for projects of this sort, which take many years to complete and which, when completed, have to go through a long commissioning period before they can earn a return on capital sufficient to attract private enterprise. These difficulties are increased when, as happened in the case of the strip mill expansion programme, the national interest requires provision of additional capacity to be made on a larger scale and rather earlier than could be justified on a strict commercial view. The Government think that if the industry continues in private ownership, the need for further public assistance is likely to recur over the years or, alternatively, that prices will tend to be fixed at an unnecessarily high level, in order to provide the necessary finance.

12. Thirdly, despite the provision in the Iron and Steel Act, 1953, requiring the Iron and Steel Board to promote the efficient, economic and adequate supply under competitive conditions of iron and steel products, the system was operated in such a way that there has been very little competition on price between British steel companies selling in this country. This tendency towards arrangements of a monopoly type is not confined to this country; the capital-intensive nature of the industry and the effects upon it of cyclical fluctuations in demand, are well known.
The industry in the United Kingdom entered into arrangements to ensure that members generally observed as actual selling prices the maximum prices fixed by the Iron and Steel Board under the Iron and Steel Act, 1953, and sought to defend this as justifiable before the Restrictive Practices Court. One of these arrangements was the subject of an enquiry by the Court which, in its judgment on 22nd June, 1964, found that it "must be declared contrary to the public interest". Since then, that agreement and others of the same type in the industry have been abandoned, but it does not follow that effective and widespread price competition will emerge. Because of the size of its units and the nature of its market, the steel industry here, as in other countries, is likely to tend towards common pricing through price leadership. In the Government's view, these monopoly characteristics in this basic industry point to the need for public ownership under which price policy would be determined and prices fixed with regard only to the public interest.

IV. The Government's Proposals

Objectives of the New Arrangements

13. The Government's proposals are designed not merely to remedy the manifest weaknesses inherent in the arrangements introduced in 1953 but also to secure further advantages as follows:

(a) Investment and Capacity

The present negative control by the Iron and Steel Board over projects initiated by the individual companies will be replaced by central planning of investment programmes under which new projects will be initiated in accordance with a national programme designed to ensure that adequate new capacity is provided and that major new units of plant are located in accordance with the national interest. Under such a programme, it will be possible to strike the right economic balance between continuing to use obsolescent plant and incurring capital expenditure to replace it, and to ensure that effect is given to the conclusions of such analysis.

(b) Production and Marketing

Central planning of production and marketing over the main part of the industry will make it possible to concentrate production in the most advantageous fashion in the national interest and to eliminate uneconomic practices such as unnecessary crosshauls. The development of new management techniques, including the central use of computers, makes it possible to plan production and marketing centrally in some detail; full advantage can only be taken of these techniques by using them to secure the best pattern of production and marketing for the main part of the industry as a whole and not merely for the individual companies. This will improve the industry's service to consumers generally.

(c) Exports

Expansion of exports of iron and steel as such becomes increasingly difficult as more countries develop their own steel industries. The Iron and Steel Board and the British Iron and Steel Federation foresee...
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Expansion of exports of iron and steel as such becomes increasingly difficult as more countries develop their own steel industries. The Iron and Steel Board and the British Iron and Steel Federation foresee
some reduction in such exports between 1964 and 1970. The improvement in its competitive efficiency under nationalisation will assist the British steel industry to meet these difficulties and, even more important, will contribute to the exports of the engineering and other steel-using industries. Common ownership of the main units of the steel industry should further help the export drive by making possible a better organisation of iron and steel exports by concentrating them on works best placed to meet overseas requirements; and under nationalisation the need to develop exports will be taken fully into account in decisions on the siting of new works.

(d) Structure of the Industry

It is widely agreed that changes in the organisational structure of the industry are needed to secure a more efficient pattern of production and the concentration of production on units of optimum size. The need for change will be emphasised by technological advances leading to even larger units of production.

III. Central planning of the positive kind described in subparagraphs (a), (b) and (c) above and a far-reaching rationalisation of the structure of the industry require common ownership of the main producing units, thus permitting the finances of the main part of the industry to be dealt with as a whole. Common ownership should also make it possible to improve the central services, particularly in the fields of raw materials and research, which the industry has already developed within the limits set by the existence of a large number of companies in separate ownership.

15. It is essential in the interests of the British economy that the improvement in the efficiency of the iron and steel industry which can be obtained from the common ownership of its main units should be secured as quickly as possible. It is unlikely that common ownership could be brought about by private mergers. In any event, there would be obvious and very strong objections to private ownership of a unit of such overwhelming power and importance in the economy. In the Government's view, nationalisation of the main part of the iron and steel industry is the only appropriate means of securing quickly the benefits of common ownership. Nationalisation will also provide new opportunities for increasing co-operation between management and the trade unions so as to improve the use of manpower and increase productivity, and to resolve in a fair manner the human problems to which structural and technological changes will inevitably give rise.

The Scope and Method of Nationalisation

16. The Government are satisfied that the essential objectives of nationalisation can be secured without bringing into public ownership all the 260 limited liability companies in the industry. The industry is dominated by a small number of very large groups, each of which produced more than 175,000 tons of crude steel in the twelve months July, 1963 to June, 1964. One of these groups, Richard Thomas and Baldwins Ltd., is already publicly owned. The Government think that the right course is to take over these groups in their entirety as going concerns except certain very large mixed groups whose main interests are clearly outside iron and steel. In the latter cases, only the subsidiaries concerned primarily with steel production will be nationalised.
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The Scope and Method of Nationalisation

The Government are satisfied that the essential objectives of nationalisation can be secured without bringing into public ownership all the 260 limited liability companies in the industry. The industry is dominated by a small number of very large groups, each of which produced more than 4,750,000 tons of crude steel in the twelve months July, 1963 to June, 1964. One of these groups, Richard Thomas and Baldwins Ltd., is already publicly owned. The Government think that the right course is to take over these groups in their entirety as going concerns except certain very large mixed groups whose main interests are clearly outside iron and steel. In the latter cases, only the subsidiaries concerned primarily with steel production will be nationalised.
17. Nationalisation will be effected by the vesting in a National Steel Corporation of all the shares and securities\(^{(4)}\) of the following fourteen companies, which alone comply with the criteria in the preceding paragraph:

- Colvilles Ltd.
- Consett Iron Co. Ltd.
- Dorman, Long & Co. Ltd.
- English Steel Corporation Ltd.
- G.K.N. Steel Co. Ltd.
- John Summers & Sons Ltd.
- The Lancashire Steel Corporation Ltd.
- The Park Gate Iron and Steel Co. Ltd.
- Richard Thomas and Baldwins Ltd.
- Round Oak Steel Works Ltd.
- South Durham Steel & Iron Co. Ltd.
- The Steel Company of Wales Ltd.
- Stewarts and Lloyds Ltd.
- The United Steel Companies Ltd.

18. These fourteen companies own or control the 22 integrated works\(^{(5)}\) and 42 other iron and steel works. They employ on their iron and steel activities about 220,000 men and women - about 70 per cent of the total manpower of the iron and steel industry. They account for over 90 per cent of the production of iron ore, pig iron, crude carbon steel, heavy steel products, sheet and tin plate. They occupy a strong position in the production of most of the other main steel products. They control about 60 per cent of known reserves of iron ore in the United Kingdom\(^{(6)}\).

19. Four of the fourteen companies are subsidiaries of holding companies of large mixed groups. They are the English Steel Corporation Ltd., which is a subsidiary of Vickers Ltd.; G.K.N. Steel Co. Ltd., which is a subsidiary of Guest, Keen & Nettlefolds Ltd.; and the Park Gate Iron and Steel Co. Ltd. and Round Oak Steel Works Ltd., which are subsidiaries of Tube Investments Ltd. The Government have given much thought to whether the national interest would best be served by retaining vertical integration between these companies and their parent groups or by securing horizontal integration between them and the main part of the steel industry. They have decided that the balance of advantage lies

\[^{(k)}\] Excluding (a) securities forming part of the loan capital of a company which can be redeemed at par at less than one year's notice and (b) securities created by a company as collateral security for a loan to that company. The latter will be cancelled as from the vesting day.

\[^{(5)}\] The figures in this paragraph include the subsidiaries of the 14 major companies and companies in which the 14 major companies collectively have a majority interest. One of the 22 integrated works is owned by the Skinningrove Iron Co. Ltd. which in itself owned by Iron and Steel Investments Ltd. - a consortium 90 per cent of the shares of which are held by nine of the companies which will be nationalised.

\[^{(6)}\] One per cent of known reserves is controlled by independent iron ore producers. The remainder is outside the control of the iron ore and iron and steel industries.
with the nationalisation of the companies in these groups, specified in paragraph 17. These four steel companies had an output of 3.4 million tons of crude steel in the twelve months July, 1963 to June, 1964 and have a potential output of 4.4 million tons in 1965. Their exclusion from nationalisation would seriously prejudice the possibility of national planning of production and marketing and would make it more difficult to rationalise the structure of the industry. The Government will, however, expect the National Steel Corporation to conduct their affairs with due regard to the existing close links between the steel-producing units and other units of Vickers, Guest, Keen and Nettlefolds and Tube Investments; and these concerns, like other consumers of steel, can expect to benefit from the improvements in efficiency which should result from common ownership of the main part of the industry.

20. Two of the fourteen companies - Dorman, Long & Co. Ltd. and the Lancashire Steel Corporation Ltd. - are holding companies for groups which have important interests outside the iron and steel field, particularly in structural engineering, bridge building and wire manufacture. The position of these groups is, however, different from that of the Vickers, Guest, Keen and Nettlefolds and Tube Investments groups because their main interests are clearly in iron and steel activities; and they should, therefore, be nationalised as a whole.

Vesting Day

21. Vesting day will be the day after thirty-six weeks have passed from Royal Assent to the nationalisation measure, or an earlier day fixed by order of the Minister of Power.

Compensation

22. The nationalisation measure will contain provisions to guard against the dissipation of the property and assets of the companies to be nationalised and their subsidiary companies in the period until vesting day. Annex C contains a summary of these provisions which will apply in some cases to transactions entered into after the date of publication of White Paper and in others to transactions entered into after 4th November, 1964 - the date of the announcement by the First Secretary of State that the Government intended to take into public ownership the main part of the iron and steel industry.

23. The day to day operations of the industry and the implementation of its programmes of capital expenditure have been continuing normally. This is clearly required in the national interest and in the interest of the industry itself. Although the safeguarding provisions are necessary, they should not hamper the normal operations of the companies. Actions taken in good faith and in the normal course of business are unlikely to be challenged under these provisions; and the Minister of Power is ready.
ready to discuss with the directors concerned any transactions of an unusual character.

Organisation of the Nationalised Industry

25. The National Steel Corporation will consist of a chairman and from ten to sixteen other members appointed by the Minister of Power. The Corporation will initially be in the position of a holding company in relation to the nationalised companies. However, as sole shareholder, they will in practice be able to exercise all necessary central control over the organisation as well as the policy of the nationalised companies. They will be able to secure the regrouping of assets among the existing companies or the replacement of the existing companies by a completely new company structure or the setting up of a unitary organisation under which the underlying assets would be directly owned by the Corporation which would wind up the companies and set up their own administrative substructure.

26. One of the main tasks of the Corporation will be to combine necessary and desirable centralisation of the main policy decisions with the maintenance of vitality and a sense of responsibility in the subordinate units. This problem is common to all large organisations whether in the public or private sector of the economy. In this connection, special attention will have to be given to the substructure of organisation below the Corporation. The Government think it would be wrong to lay down a rigid substructure in legislative provisions which would be inflexible for the future and which would have to be framed before the Corporation have had an opportunity to offer their advice on the appropriate organisation. The nationalisation measure will, therefore, not contain a detailed scheme of organisation for the nationalised industry; but it will require the Corporation to undertake an immediate review of the organisation for carrying on the activities under their ultimate control and to submit a report to the Minister within twelve months of vesting day (or a longer period allowed by the Minister). The Corporation will also be required to submit further reports whenever they think it necessary or the Minister asks them to do so. The Minister will have the power to give the Corporation specific directions on organisation; and he will, of course, be answerable to Parliament for the use he makes of this power.

Powers of the Nationalised Industry

27. While a company structure is retained, the powers of the nationalised companies will in general be those in their memoranda of association. The National Steel Corporation will be empowered (a) to hold the securities which vest in them; (b) to carry on any activities which the nationalised companies are or have been authorised to carry on by their memoranda of association and (c) to form or acquire by agreement other companies whether engaged in iron and steel or other activities. The Corporation will also have power, subject to the Minister's approval, to purchase compulsorily land required for their own purposes or those of the nationalised companies.

28. The nationalised steel industry will be able to diversify its activities when this appears commercially advantageous. Diversification is a common practice among private companies, including the steel companies, and has advantages. It enables an industrial organisation to adjust its activities to keep pace with changing technologies and market conditions. The Government think that the efficiency of the national economy as a whole will be improved by giving the nationalised industries an opportunity to diversify.
29. The nationalised iron and steel industry will acquire a firm basis of diversified experience on which to build through the acquisition of the wider interests of the Dorman Long and Lancashire Steel groups and certain other companies, particularly Stewarts and Lloyds. A major extension of its activities outside the iron and steel field will, however, not be solely a matter for the commercial judgment of the Corporation. It may raise issues of national policy. Both the Corporation and the nationalised companies will, therefore, be required to obtain the consent of the Minister of Power before acquiring interests in companies outside the iron and steel field; and the Corporation will be required to obtain similar consent before themselves undertaking activities outside that field.

**Duties of the National Steel Corporation**

30. The specific duties of the Corporation will be to:

(a) Promote the efficient and economic supply of iron and steel products in such quantities and at such prices as may seem to them best calculated to meet the reasonable demands of consumers and to further the public interest.

(b) Avoid, and ensure that the nationalised companies avoid, undue preference or unfair discrimination between customers but without prejudice to such variations in the terms and conditions on which their iron and steel products are supplied as may arise from ordinary commercial considerations or from the public interest.

(c) Promote the safety, health and welfare of their employees and the employees of the nationalised companies, and consult with appropriate organisations about the establishment of machinery for negotiation and joint consultation.

(d) Promote the export of iron and steel products and any other products they or the nationalised companies produce.

(e) Promote research and development in iron and steel activities and in any other activities which they or a nationalised company carry on.

**Finance**

31. The Corporation will be statutorily responsible for the finances of the nationalised industry as a whole, including the service of debt to the Exchequer. They will be required to ensure that the industry's revenues are not less than sufficient to meet outgoings properly chargeable to revenue account, taking one year with another, and to establish and maintain a general reserve. The Minister of Power will be empowered to give the Corporation specific directions about the disposal of surplus revenue and the establishment and management of the general reserve. It is the Government's intention to apply to the nationalised steel industry the principles and procedures set out in the White Paper on the Financial and Economic Obligations of the Nationalised Industries under which financial objectives are agreed with the boards concerned.

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(7) Cmnd. 1357
32. The nationalised iron and steel industry will be required to borrow on a long-term basis from the Minister alone. It will be empowered to borrow on a temporary basis from the Minister or, with the consent of the Minister, from other persons, and the Treasury will be able to guarantee such borrowings by the Corporation. Total outstanding borrowings, in addition to the industry's commencing capital debt, will be limited to £300 million. This limit should be sufficient to meet the industry's need for borrowing to finance capital expenditure already planned and to re-finance certain loans to the companies concerned from outside bodies, and should also allow a margin for any further plans over a period of about five years. However, it will be provided that the industry cannot borrow more than £200 million without a resolution of the House of Commons.

33. The Minister will be empowered to give the Corporation specific directions about servicing the nationalised industry's commencing capital debt and any further sums advanced. The Minister will be required to send a yearly account of payments and receipts to the Comptroller and Auditor General, who will be required to lay it before Parliament together with his own report on it.

34. The Corporation will be required to keep proper accounts and each year to submit their audited accounts and those of the nationalised companies to the Minister, who will be required to lay them before Parliament.

The Role of the Minister

35. In addition to the powers to give the Corporation specific directions referred to in paragraphs 26, 31 and 33 above, the Minister of Power will be able to give the Corporation directions of a general character on matters which appear to him to affect the national interest and specific directions to discontinue or restrict activities or dispose of production facilities, other than iron and steel activities or production facilities in Great Britain. The Corporation will be required to obtain the Minister's approval for the general lines of their programmes of capital development and research and development, to provide any information the Minister requires and to submit an annual report to the Minister who must lay it before Parliament.

Protection of Consumers

36. The increased efficiency resulting from nationalisation of the main part of the industry should benefit consumers of iron and steel through prices lower than might otherwise be necessary and improvements in the quality of products and services. The nationalisation measure will impose no restriction on imports of iron and steel. Consumers will be free to buy from the private sector any products it can provide. The nationalisation measure

(8) The commencing capital debt will be made up of an amount for the compensation to private holders of securities in companies to be nationalised, the value as shown in their 1963/64 accounts of the securities held by the Iron and Steel Holding and Realisation Agency in Richard Thomas and Baldwins Ltd., the amount of the Agency's outstanding loans to this company at vesting date, and the amount of the Minister of Power's loans under Section 5 of the Iron and Steel Act, 1953 to Richard Thomas and Baldwins, Ltd. and to Colville Ltd., all of which loans and securities will be transferred under the Bill to the Corporation on vesting day.
will provide for the establishment of a Consumers' Council and consumers will be further protected by the specific duties to be imposed on the Corporation described in paragraph 30 above. Although the nationalisation measure will not give the Minister any specific powers on prices, he can be expected to be concerned with questions of price policy in the nationalised iron and steel industry in the same way that the responsible Ministers in successive Governments have been concerned with questions of price policy in the other nationalised industries.

The Private Sector of the Iron and Steel Industry

37. Although the main part of the industry will be nationalised, the private sector will still consist of about 210 companies having an annual output valued at about £200 million and employing nearly 100,000 people. The Government regard it as important that the private sector should have a healthy and efficient life of its own and to make a full contribution to the national economy. The private sector will have a particularly important role in those specialist finishing operations which lie on the borderline between the steel and engineering industries but it will be represented in most sections of the industry. The Government propose to abolish the controls now operated by the Iron and Steel Board. In the interests of proper planning of the investment programme of the industry as a whole, the Minister will retain a reserve power to control substantial development projects by the private companies in the basic fields of iron and steel-making alone. The Minister will also be responsible for collecting and publishing statistics relating to the industry as a whole.

38. There will be a need for arrangements for appropriate consultation and co-operation between the nationalised and private sectors. The precise form of these arrangements will be a matter for consultation between the two sectors of the industry, the trade unions and the Government: but the Government envisage that there might be established on a non-statutory basis:

(a) An advisory committee including representatives of the two sectors of the industry, the trade unions and Government Departments, to provide for the participation of the whole industry in national economic planning.

(b) A joint forum between the nationalised and private sectors to discuss matters of a more commercial character which are inappropriate to the advisory committee.

(c) An advisory council on research and development appointed by the Minister of Power and covering both the nationalised and private sectors.

39. The nationalisation measure will specifically permit joint action by the nationalised and private sectors in negotiations about terms and conditions of service and in the fields of safety, health and welfare. The arrangements for the supervision of training in the whole industry by the Iron and Steel Industry Training Board, appointed by the Minister of Labour under the Industrial Training Act, 1964, will not be disturbed.

(9) There will also be about 90 steel founding and 1,200 iron-founding establishments outside the nationalised part of the iron and steel industry.
The Iron and Steel Board and the Iron and Steel Holding and Realisation Agency

40. When the new arrangements described in preceding paragraphs have been brought into operation, there will be no functions for the Iron and Steel Board and the Iron and Steel Holding and Realisation Agency to perform. The nationalisation measure will provide for the dissolution of the Board and the transfer of their property, rights, liabilities and obligations to the Corporation. (Provision will be made to ensure that records relating to the companies which remain in private ownership are not transferred to the Corporation). The Agency will be dissolved by means of a Treasury order made under the Iron and Steel Act, 1953.

The British Iron and Steel Federation

41. The Government intend that the nationalised companies should withdraw as soon as possible and on equitable terms from the constituent bodies of the British Iron and Steel Federation and that the central trading services operated by the Federation should be transferred to the Corporation. The companies to be nationalised are the predominant users of the central trading services but the Corporation would make them available on equal terms to the private companies if the latter wished.

42. The Government think that the main consideration in making the new arrangements should be to ensure in the national interest that the central trading services continue without interruption for the benefit of both the nationalised and private sectors. The arrangements, including contractual arrangements, on which these services are based are extremely complicated and the Government's present knowledge of them is necessarily somewhat incomplete. The Government, therefore, propose that these matters should, in the first instance, be left to negotiation between the Corporation and the Federation. They hope that the Federation will co-operate in the national interest in reaching a settlement which, while safeguarding the legitimate interests of the private sector, will correspond with the realities of a situation in which the central services will be used almost entirely by the nationalised sector of the iron and steel industry.

43. When the nationalised companies have left the constituent bodies of the Federation and the central services have been transferred to the Corporation, it will be for the iron and steel companies remaining in private ownership to decide whether to retain the Federation as their trade association or to make new arrangements.

V. Conclusion

44. An efficient and dynamic steel industry, fully co-ordinated into the Government's general economic plan, is of paramount importance to the country. The proposals in this White Paper are designed to enable the industry to realise its full potential in the national interest.

Ministry of Power.

22nd April, 1965.
# ANNEX A

## PRODUCTION OF MAIN STEEL PRODUCTS

**IN THE TWELVE MONTHS JULY 1963 TO JUNE 1964,**

**AND CAPACITY IN 1965**

<table>
<thead>
<tr>
<th>PRODUCT</th>
<th>PRODUCTION JULY 1963/JUNE 1964</th>
<th>CAPACITY 1965</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>TOTAL GREAT BRITAIN ('000 tons)</td>
<td>14 MAJOR COMPANIES (1) ('000 tons)</td>
</tr>
<tr>
<td></td>
<td>14 MAJOR COMPANIES (1) (%)</td>
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<tr>
<td></td>
<td>TOTAL GREAT BRITAIN ('000 tons)</td>
<td>14 MAJOR COMPANIES (1) ('000 tons)</td>
</tr>
<tr>
<td></td>
<td>14 MAJOR COMPANIES (1) (%)</td>
<td></td>
</tr>
</tbody>
</table>
| IRON ORE                         | 15,846                          | 15,142        | 95  
|                                  |                                 |               |
| HIC IRON                         | 16,105                          | 15,420        | 96  
|                                  |                                 |               |
| CRUDE STEEL:                     |                                 |               |
| CARBON                           | 23,008                          | 21,773        | 94  
| ALLOY                            | 1,742                           | 1,101         | 63  
| RE-ROLLING & FORGING BILLET      | 7,580                           | 6,840         | 90  
| PLATE                            | 2,949                           | 2,683         | 91  
| HEAVY SECTIONS & BARS (2)        | 3,095                           | 3,007         | 97  
| SHEET                            | 4,105                           | 4,031         | 98  
| TINPLATE                         | 1,178                           | 1,178         | 100 |
| TUBES, PIPES AND FITTINGS (3)    | 1,563                           | 966           | 71  
| WIRE RODS                        | 1,609                           | 893           | 55  
| FORGINGS, TYRES, WHEELS & AXLES  | 265                             | 111           | 42  
| LIGHT SECTIONS & BARS            | 2,860                           | 1,446         | 50  
| HOT ROLLED STRIP                 | 1,814                           | 1,501         | 82  
| COLD ROLLED STRIP                | 552                             | 190           | 34  
| BRIGHT STEEL BARS                | 569                             | 60            | 10  

(1) These columns show the production of the 14 major companies together with the production of their subsidiaries and of companies in which the 14 major companies collectively have a majority interest.

(2) Including rails and railway material.

(3) Up to 16 in. outside diameter.
Summary of Proposed Compensation Provisions

The National Steel Corporation will be empowered to direct the disclaimer of any agreement or lease entered into by a company coming into public ownership, where the Corporation consider that the agreement or lease was unnecessary for the purpose of the company's business or was entered into by the company with unreasonable lack of prudence, regard being had to the circumstances at the time. This power will be available in relation to any agreement or lease made or varied on or after the 4th November, 1964 and before vesting date.

2. The Bill will contain provisions about the payment of interest or dividends by the 14 companies listed in paragraph 17 of the White Paper in respect of periods between the date of publication of White Paper/ and the vesting date. Defined limits will be applied to the rate of any dividend or interest paid by any of these companies in pursuance of a resolution of the directors passed after the date of publication of White Paper/ in respect of the last complete financial year before that date or any subsequent period before the vesting date. If such a resolution has authorised the payment of any dividend or interest, in respect of that financial year or period, at a rate exceeding the maximum rate permitted by the Bill, the directors of the company will be made personally liable to the National Steel Corporation to repay the amount of interest or dividend paid out by the company in excess of the permitted rate.

The maximum rates of interest or dividend permitted by the Bill for the above purposes will be formulated as follows (regard being had in either case to any previous payment of interest or interim dividend for the same year or period):

1) Interest on Loan Capital

The permitted rate is that which is the minimum necessary to prevent the company from defaulting in respect of its obligations.

2) Dividends on Share Capital

Dividend must be paid only out of the company's net revenue (as certified by the company's auditors) for the year or period to which the dividend relates or, in accordance with normal practice, from the company's
dividend equalisation account or other reserve maintained for the like purpose; but that net revenue may, in the case of shares or stock carrying cumulative preference rights, be applied towards making good the holders' accumulated right to participate in the profits of previous years. Subject to the foregoing, the maximum permitted rates of dividend are as follows:

(i) Ordinary Shares and Stock

The rate, calculated as an annual rate, paid (otherwise than as a capital dividend) in respect of the last financial year in respect of which a dividend was paid before the date of publication of White Paper on the same class of securities.

(ii) Shares or Stock with Priority for Dividend

The minimum rate required to enable the company to pay, in accordance with the constitution of the company and the rights attaching to the various classes of securities, the permitted rate on the ordinary shares or stock (see (i) above).

In the case of securities issued after the date of publication of White Paper either at a price below market value or free, the Minister of Power will have power to direct that the maximum permitted rate of interest or dividend on these securities is to be less than that stated under heads (i) and (ii) above, or that no payment of interest or dividend is to be permitted.

Any payment, however described, by a company to its members in their capacity as members, if made out of the net revenue of the company, will be treated as a payment of dividend for the purposes of the foregoing provisions.

References above to payments of interest or dividend are to be construed as references to the gross amount in question, that is to say, the amount of the interest or dividend before deduction of tax. Any payment expressed to be made free of tax will be treated as a net amount paid after deduction of tax and will require to be grossed up accordingly, the limiting provisions of the Bill applying to the gross amount.

3. The Bill will contain provisions enabling the Minister of Power in certain circumstances to bring into public ownership a company which does not become publically-owned by the operation of the Bill itself. The circumstances in which this power will be exercisable are that:

(1) the company in question for the time being owns or operates any iron or steel works which on or at any time after the 4th November, 1964 were owned or operated by one of the 14 companies listed in para. 17 of the White Paper or by one of their subsidiaries or

(2) the membership of the company was on the 4th November, 1964 such that, if it had not subsequently changed, the company would have come into public ownership under the Bill.

* In the case of any securities on which a final dividend has never been paid, the rate will be such as the Minister of Power may approve.
In either case, the Minister will be given power to serve a notice on the company concerned, the effect of which will be to bring the company into public ownership either in addition to, or in substitution for, one or more of the fourteen companies.

If a company is brought into public ownership under this procedure, the compensation and safeguarding provisions of the Bill will apply, and be deemed always to have applied, to it in the same way as they apply to the 14 companies: in particular, the date on which the securities of the company vest in pursuance of the Minister's notice will be treated as "the vesting date" in relation to that company for all purposes of these provisions.

The corollary of the above-mentioned power is that of excluding one or more of the 14 companies from coming into public ownership, if since the 4th November, 1964, it has ceased to own or operate any iron or steel works, or to have any subsidiary which does so. This power also will be conferred on the Minister and will be exercisable by the service of a notice on the company concerned.

"Iron or steel works" in this paragraph means any works used for any of the iron and steel activities specified in Schedule 3 to the Iron and Steel Act, 1953, and includes plant and machinery and iron ore mines and quarries.

4. If at any time after the 4th November, 1964, and before the date on which it comes into public ownership, a company has entered into any transaction involving the assignment of a right of ownership or user in respect of any works, plant, machinery or other fixed assets, a right to any invention or design, or a right to iron ore in the ground, the Corporation will be enabled under the Bill to serve a "notice of acquisition" on the current owner of the right concerned and compel its re-transfer to the Corporation or one of the publicly-owned companies. Similar provisions will apply to rights transferred by subsidiaries of companies which come into public ownership. Compensation in the form of Government stock will be paid in appropriate cases to the person from whom the asset is recovered.

5. The Bill will contain provisions protecting the National Steel Corporation against losses due to transactions taking effect after the date of publication of White Paper and resulting in the dissipation of a company's assets before it comes into public ownership. The transactions covered by these provisions are: reduction of share capital by payments to members; premature redemption of securities; payment to holders of securities out of the company's capital and assignment of the company's assets to, or for a consideration payable to, holders of the company's securities. Personal liability for any loss suffered by the company may fall on directors who have been party to any of the above transactions and, in certain circumstances, on the other parties to the transactions.

6. Provision will also be made enabling the National Steel Corporation to recover any losses sustained as a result of certain other transactions entered into by companies which come into public ownership under the Bill after the date of publication of White Paper and resulting in dissipation of their assets. Such transactions include payments, or assignments of assets, without consideration or for an inadequate consideration; and unduly onerous or imprudent contracts whose disadvantageous character substantially outweighs any benefit accruing therefrom to the company. Again,
personal liability to repay to the Corporation the amount of any loss occurring to the company from such transactions will attach to any persons who were parties thereto, including the directors of the company.

7. Transactions such as are mentioned in paragraphs 1 to 6 above will be excluded from the effect of the safeguarding provisions if they have been approved by the Minister of Power (either before or after the Bill passes into law). The Minister's approval will normally be effective for this purpose even though given subsequently to the transaction in question. This, however, will not apply in the case of payments of interest or dividend above the maximum permitted limits (see paragraph 2 above): for such payments, the Minister's approval must be sought in advance.

8. The Bill will also contain provisions about certain agreements for the loan of money to the 14 companies listed in paragraph 17 of the White Paper. Any agreement in force at the date when the Bill receives Royal Assent under which money has been lent to one of the 14 companies will be determined at the vesting date if it is a condition of the agreement that the lender has the right to require the issue of, or subscribe for, securities of the company or the right to make appointments to the company's board. A person enjoying rights under such an agreement will be entitled to compensation in respect of any loss he has sustained as a result of the abrogation of his rights. Compensation will, however, be payable only in respect of such rights if created before the 4th November, 1964, or on or after that date with the written approval of the Minister of Power.

9. The Bill will contain provisions for arbitration, on the lines adopted by the Iron and Steel Act, 1949, in cases of dispute as to the applicability of the safeguarding provisions to particular circumstances and, in particular, as to the personal liability of directors and other persons on account of their participation in transactions to which the safeguarding provisions are found to apply.

10. The question which companies "come into public ownership" for the purposes of the safeguarding provisions will be determined by reference to a definition, to be comprised in the Bill, of the expression "publicly-owned company". This expression will not be confined to the 14 companies whose securities vest in the National Steel Corporation by virtue of the Bill, but will include certain subsidiaries and associated companies. After nationalisation, a company will be "publicly owned" if it is one of a group of bodies corporate to which both of the following conditions apply:

(a) every body corporate in the group is either the National Steel Corporation or a subsidiary of the Corporation, and

(b) every member of every company in the group is (by direct or nominee shareholding) either the Corporation or another company in the group.

Any company which becomes "publicly owned" within the meaning of the above definition will be treated as "coming into public ownership".

22nd April, 1965
26th April, 1965

CABINET

MILITARY AID TO INDIA AND PAKISTAN

Memorandum by the Minister of State, Commonwealth Relations Office

At their meeting on 8th April, 1965 (C.C. (65) 24th Conclusions, Minute 3), the Cabinet considered the recommendations on Military Aid to India and Pakistan which the Commonwealth Secretary put forward in his memorandum C.(65) 60 of 6th April.

2. The recommendation for the supply of 30 Hunter fighters to India was then agreed subject to consultation with the United States Government on the method and timing of the communication of this decision to the Government of India. The State Department confirmed that an early announcement to the Indians would not cause them any difficulty. (President Ayub's visit to Washington has in any case now been cancelled). This offer has, therefore, been conveyed to the Government of India.

3. Before reaching a decision to offer India and Pakistan each an Oberon submarine on ten year credit terms, the Cabinet wished the possibility to be explored of the United States Government meeting these requirements. Our Embassy in Washington consulted the State Department on 12th April and received the reply that there would be the greatest difficulty in the United States Government providing a submarine for India. Congressional authority for their military aid programme for India limits it to what is necessary to meet the threat from China. Aid to the Indian Navy falls outside this criterion, but the Americans argue that we could justify it as aid to a fellow member of the Commonwealth. Moreover, as the United States are not building any conventional submarines, they would only be able to supply old submarines: for the sale or loan of these the specific approval of Congress would be required and such an offer would be much less effective than one of a new submarine as a means of diverting the Indians from accepting the offer of Russian submarines which is now before them. It is even less likely that the Americans could be persuaded to finance the purchase of Oberon submarines constructed in this country. Because of the current distaste of the United States Government for the Pakistan Government's trafficking with China and Russia, it would be particularly difficult to persuade them to help Pakistan over a submarine at present.

4. The Prime Minister mentioned this matter to Mr. Rusk in Washington on 15th April, when Mr. Rusk said that he would be glad to discuss problems of military aid further with us when he is in London for the SEATO meeting during the first week in May. The State

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SECRET
Department have confirmed this with the Minister of State, Foreign Office. These discussions will be useful but the United States authorities are most unlikely to relent from their present position about submarines.

5. An early decision is desirable. We have kept the Indians waiting on this since Mr. Shastri was here in December. Moreover, we ought to tell the Pakistan Government of the offer of Hunter aircraft which we have now made to the Government of India and could best do this when we offer them an Oberon submarine. The longer we delay, the greater is the danger of their hearing about the Hunters from another source and therefore reacting the more sharply. Finally, Lord Mountbatten will be in Delhi in the first week in May and there would be great advantage in his being able to discuss the matter with the Government of India at that time.

6. On the substance of this matter I would not repeat what was set out in the Commonwealth Secretary's memorandum (C.(65) 60), except to emphasise that if the Indian Navy acquired a Soviet submarine, they will almost certainly acquire Soviet frigates, for which they also have open an attractive Soviet offer. This would make it necessary for us to restrict the equipment in the Leander frigates, and stop joint exercises with the Indian Navy and the attendance of Indian naval officers at our courses. In due course, Soviet influence would replace that of the Royal Navy with the Indian Navy.

7. I recommend therefore that as regards India:

(a) We offer to finance the construction of an Oberon submarine (£4.5 million) on ten year credit terms. It should be possible to arrange with the Indians to delay publicity for some weeks.

(b) We should explain to the Indians that this offer is made on the assumption that they do not intend to obtain submarines or frigates from Russia;

and as regards Pakistan that:

(c) We should offer to finance the construction of an Oberon submarine and the provision of certain radar and electronic equipment up to a total value of £1 million, both on ten year credit terms, leaving me discretion to settle the timing of negotiations with the Pakistan Government.

C.H.

Commonwealth Relations Office, S. W. l.

23rd April, 1965
When the Minister of Technology's proposals for spreading the use of computers and computer techniques in British industry and promoting a flourishing computer industry were considered last February by the Prime Minister's Group on Technology (Misc. 24/2nd Meeting), it was thought that British computers were generally competitive with foreign computers. At that time the Minister of Technology saw no evidence that price was a sufficiently cogent consideration to make it necessary for him to recommend a measure of discrimination in the provision of computing facilities for Government use.

2. The Minister of Technology has recently suggested, however, that there is evidence that the British manufacturers cannot offer the larger machines as cheaply as their American competitors; and he has recommended that two particular Government orders for large computers should be given to British contenders. In the first of these cases—a computer required by the Scottish Department—tenders were received last October and the most attractive bid has been made by an American subsidiary, International Business Machines (United Kingdom) Limited (I.B.M. (U.K.)). In the second case—a computer required by the Royal Aircraft Establishment, Farnborough—the Minister of Aviation has proposed that tenders should be invited from British firms only (excluding American subsidiaries here). These proposals were discussed in the Economic Development Committee (E.D. (65) 11th Meeting) and in the absence of agreement I undertook to arrange for the issues to be clarified by officials and the matter referred to Cabinet. A report by officials is annexed to this memorandum.

3. In my view the arguments against awarding the Scottish contract to International Computers and Tabulators Limited (I.C.T.), when they have been thoroughly outbid on price and performance are overwhelming. This contract should go to I.B.M.
4. The Farnborough case is fortunately more encouraging. The British machine has the edge in performance and suitability for the job. This would justify, if necessary, some margin of price differential in evaluation of the bids from tenders. Moreover, I.C.T. must surely recognise the importance of this order and of making a competitive bid, provided they know they face competition. I cannot see a sound future for a British-owned computer industry which faces no competition (even from British-based foreign subsidiaries) in bidding for Government orders. Such a policy is most likely to leave us, at the end of the day, with an industry which can supply machines to the British Government but to no one else. The measures we have already taken to assist the British industry, including generous financial support for research and development, were approved in the belief that the industry was currently competitive and these measures would ensure that it remained so.

5. I therefore recommend that the Farnborough order should be put out to open tender in the ordinary way (and, if necessary, I.C.T. should be told that their tender must be competitive). Until we have been out to tender we cannot be sure that there will not be a fully competitive British bid, whether from I.C.T., English Electric or Elliott Automation. If, when the tenders have been evaluated, I.B.M. are found to have materially outbid the British competition making every allowance for any technical superiority on the latter’s part, then I think our whole policy towards the British-owned computer industry should be re-examined in the light of its failure to compete in these two cases.

G. B.

Department of Economic Affairs, S.W.1.
26th April, 1965.
The Economic Development Committee discussed on the 13th April (E.D. (65) 11th Meeting Minutes, Item 4) proposals by the Minister of Technology that the two computers required by Scottish Departments and by the Royal Aircraft Establishment, Farnborough should be bought from British manufacturers and not from foreign companies. In the absence of agreement the First Secretary undertook to arrange further clarification of the issues by officials of the Departments primarily concerned.

2. The question has since been considered at a meeting attended by officials of the Department of Economic Affairs, Treasury, Board of Trade, the Scottish Office, Department of Education and Science and the Ministries of Technology and Aviation. This report sets out the issues as they arise in each of the two cases.

The Scottish computer

3. A large computer is to be installed in the Scottish Department of Agriculture and Fisheries and will serve the needs of the four Scottish Departments and certain other bodies; the work would affect local authorities and other users such as hospital boards. It was put out to tender to I.C.T., International Computers and Tabulators Limited (I.C.T.), and International Business Machines (United Kingdom) Limited (I.B.M. (U.K.)). Tenders were received last October and evaluated last November. I.C.T. was the main British contender, but I.B.M. (U.K.) put in the most attractive bid and the Scottish Office's report on evaluation received Treasury support at the end of December. The matter was held over while the Ministry of Technology worked out its support policy for the British computer industry.

4. Comparison of the I.C.T. and I.B.M. bids

(a) Capital cost: The I.C.T. installation would cost £1,101,000; the I.B.M. installation £978,000, about 12 per cent cheaper. The machines cost about the same at a little over £400,000 each and the difference in total cost is attributable mainly to the lower programming costs for the I.B.M. machine. This is the area in which I.B.M. are technically ahead and there is no question of dumping by I.B.M., i.e., charging less for the imported machinery than they would charge a customer in the United States.
The I.B.M. price advantage may be even greater than 12 per cent because the Scottish Office have added about £70,000 to the I.B.M. figure for staff costs in programming despite an I.B.M. guarantee of free assistance to meet the timetable if their stated rate of production and efficiency of programmes is not achieved. Although the guarantee is related to inexperienced programmers of the type to be recruited, the Scottish Office have increased the estimate to avoid any accusation of over-optimism in the use of the I.B.M. programming language. The Ministry of Technology Support Unit think that the allowance could be less, but do not seriously dispute the addition of £70,000. It would seem, however, that if there is any room for doubt about the figure of staff costs, it should be exercised in favour of I.B.M. whose agreed figures are substantially below those of I.C.T. and who have given a guarantee. If the £70,000 were not added to the I.B.M. figure, the company's bid would be 17¾ per cent lower than I.C.T.

(b) Recurrent cost: The I.B.M. running costs are lower by about £21,000 a year on a total annual cost of £400,000.

(c) Capacity: Both machines could do the jobs at present in view well within their total capacity. However, the I.B.M. machine offers 1,100 hours spare capacity as against I.C.T.'s 820 hours and it is certainly likely that, when the computer is installed, more and more work will come forward for it. On this score also the advantage is with I.B.M.

(d) Operation: The delivery date for the two computers would be about the same, but the I.C.T. system would require much more programming and the take up of work on it might be slower by between four and nine months. To meet the scheduled starting date of 1st April, 1966, with the I.C.T. installation, the Scottish Office would need to obtain the services of 25 more programmers and it is generally agreed that this many could not be recruited. If the scheduled starting date were not met, the savings in operations, estimated at £30,000 a month, would be deferred. Nine months' delay could thus add £270,000 to the cost of the project.

(e) Foreign exchange cost: Both machines contain substantial proportions of imported components. Exact details are not available, but on the information to hand the foreign exchange cost of the I.B.M. machine would be around £50,000 higher.

5. Considerations in favour of buying I.C.T. The Ministry of Technology do not deny that, on technical and financial grounds, the I.B.M. machine offers advantages to the Scottish Departments. Furthermore, when the Minister of Technology's proposals for
supporting the computer industry were considered last February by the Prime Minister’s Group on Technology (Misc. 24/2nd Meeting), it was thought that the British industry was currently sufficiently competitive to make it unnecessary to consider price discrimination in its favour. The Ministry of Technology argue against buying the I.B.M. machine in this case on the grounds that:

(a) The machine will be installed in what in effect will be a Government computing centre in Scotland. Her Majesty’s Government is pledged to support the British computer industry and it would give a bad impression, affecting the confidence of the industry’s customers at home and abroad, to replace the existing small I.C.T. machines by a large computer of American design;

(b) Her Majesty’s Government is giving research and development assistance in order to establish a flourishing British computer industry. Government orders—which account for about 30 per cent of the British industry’s market—are one of the best ways of aiding the industry to obtain the job experience it needs to overcome its current competitive weakness in programming;

(c) There is now evidence that the British industry cannot offer the larger computers as cheaply as its American competitors. Its main disadvantage in reducing its costs is its limited market. Its American competitors have an enormous market and are assisted by the United States Government’s “Buy American” policy. Government orders will give the British industry economies of scale;

(d) If British equipment is not used at the start of this project, it will not be used at all for about seven years when the transfer of the centre to a new location may provide the opportunity to start afresh. Any additional ancillary equipment needed within the seven years would probably be I.B.M. and at the end of the period there would be a cost bias in favour of I.B.M.

6. Considerations in favour of buying I.B.M. The Scottish Office strongly favour, on user and political grounds, taking the I.B.M. machine:

(a) It offers significant advantages in cost and performance. In particular, only it has available now the type of programming language required and only it has the large capacity backing store suited to the operation of a computer centre with many small jobs, as in this case;

(b) To buy I.C.T. would necessitate deferring the scheduled starting date and this would involve not only expense but also political embarrassment. The starting date has been well publicised in Scotland and the Scottish Office have entered into heavy commitments with hospital and education authorities throughout Scotland on the basis of that date. Many have started preparatory work which in many instances would have to be repeated. I.B.M. have
given a written guarantee of free help to meet the timetable and could be expected to make considerable political capital out of any buy-British decision with its resultant breaking of the timetable especially as I.B.M. have a factory in Scotland;

(c) The I.B.M. machine is not all American. Some of the components (about 20 per cent of the value of the machine) are made in Scotland and most of the design work has been carried out in Britain. If it became known that a policy was being adopted of deliberately discriminating against American computer subsidiaries in Britain, this could arouse fears of a wider discrimination with adverse effects on the level of new American investment in Britain. This would be particularly unfortunate in its application to Scotland and not merely in relation to the I.B.M. and Honeywell Computer factories there.

Other Departments see further reasons for not withholding this order from I.B.M.

(d) Accepting that it would not sit well with the Government’s recently announced policy of trying to establish a thriving British computer industry if both the Scottish and Farnborough orders were to go to an American subsidiary, it does not follow that allocation of the Scottish order to I.B.M. would affect this policy. The tenders were invited and evaluated before the policy decision was made and announced;

(e) For this reason Her Majesty’s Government’s good faith is involved. It is a matter of good public practice that firms should not be put to the expense and trouble of tendering only to be barred the field. We should protest violently if other Governments were to do this to our firms. If we are to change the rules for tendering, this should be done (unless there are very strong reasons to the contrary) only after existing bids have been dealt with;

(f) Moreover, it is not in accordance with our general commercial policy to discriminate against foreign suppliers in this way and we stand to lose more than we could gain by encouraging other Governments to adopt protectionist policies in the field of public procurement;

(g) A decision to reject the I.B.M. bid would be very awkwardly timed in relation to the agreement reached by the Minister of Defence with Mr. MacNamara that, if Her Majesty’s Government go ahead with the F111A arrangement, the United States’ Defence Department will waive its 50 per cent price discrimination in favour of domestic defence equipment and use its best efforts to place contracts in this country for the United States Forces on a competitive basis;
If this order is given to I.C.T. when they have been beaten on price, capacity and profitability of operation, there is a danger that I.C.T. will feel so confident of being nursed by Government that they will have no incentive to put their house in order. Yet unless the I.C.T. management are stimulated to improve their competitive performance, the Government's policy of helping the industry to help itself will be a fiasco.

The Farnborough computer

7. This is in a different position from the Scottish computer in that tenders have not yet been invited. The computer in this case, with its building, would cost over £600,000. A suitable machine can be provided by I.C.T. but the Ministry of Aviation believe that, if open tenders are invited, I.B.M. would put in the lowest quotation, perhaps by as much as 10 per cent. Although the I.C.T. 1907 computer would be technically the best for the job, its technical superiority would not justify overlooking a price differential of that order. The Ministry of Aviation, supported by the Ministry of Technology, wish to restrict tenders to British computer manufacturers. They argue that the sale of a foreign computer to the Royal Aircraft Establishment, Farnborough, one of the largest Government research stations in the country, will be a prize of exceptional commercial value and one which can be expected to receive widespread publicity. The considerations set out in paragraph 5 (a), (b) and (c) above are equally relevant here.

8. Against this must be set the following considerations:

(a) It is against Her Majesty's Government's general commercial policy to encourage protection for industry by discriminatory devices of this kind. We have, for example, a clear obligation to the European Free Trade Association not to extend preference in Government purchasing to British manufacturers beyond that accorded by the tariff (although we have greater latitude when in balance of payments difficulty, as now);

(b) In this case the discrimination would extend to automatically barring foreign subsidiaries in this country from tendering for Government purchases. We should take it very amiss if other Governments were to take such action in relation to British subsidiaries abroad;

(c) Our policy in tendering for computers for Government use has been to consider any company which provides adequate technical and servicing facilities in this country and by this criterion a number of foreign companies qualify, including I.B.M., Honeywell and Burroughs. To change this would create a precedent for Government procurement policy generally;

(d) The argument for competition in paragraph 6 (h) above applies in this case also. If the purchase of a British machine is so important to the British computer industry,
particularly from the point of view of job experience, I.C.T. could reasonably be urged to make the necessary adjustment to the price of their tender (guided by the standard prices quoted throughout the world for I.B.M. machines) to ensure that they match the American tender on price.

Possible solutions within existing policy

9. If it were decided that the Scottish computer contract should go to I.B.M. it would be highly desirable to secure, if reasonably possible, that the Farnborough order should by some means or other go to the British computer industry.

10. Until the order has been put to tender we cannot be sure that the I.C.T. (or possibly an Elliott or English Electric) bid will not in fact be competitive, especially having regard to the possible technical superiority of the I.C.T. machine for this purpose. I.C.T. might be encouraged to make a special effort in their tender price to secure this important order. This would avoid the difficult issues of principle.

11. Another solution would be for the Ministry of Aviation to negotiate directly a contract for an I.C.T. 1907 on the ground that this machine alone meets their specifications. The Ministry of Aviation thought that it might just be feasible to make a defensible case for ruling out the I.B.M. machine in this way since it will be slightly less flexible and slightly slower than the I.C.T. 1907, but the case would not hold up under pressure from Elliott-Automation who are also in the field for the contract. The Ministry of Aviation have been asked to consider further the possibility of drawing their specifications so as either, and preferably, to limit the practicable field of tender to I.C.T. and Elliott-Automation or to justify direct negotiation of a contract with I.C.T. on the basis of a reasonably defensible distinction between the I.C.T. machine and the rest. It seems unlikely, however, that preference by specification can be secured without discriminating in favour of one part, but against another, of the British computer industry.

Department of Economic Affairs, London, S.W.I.

23rd April, 1965.
CABINET

COMPUTER PURCHASES BY THE GOVERNMENT

Memorandum by the Minister of Technology

The memorandum by the First Secretary of State (C.(65) 65), on computer purchases for the Administrative Departments of the Secretary of State for Scotland and for the Royal Aircraft Establishment, Farnborough, raises issues which extend beyond these two immediate cases, and it would not be appropriate to consider them in isolation. Other cases posing similar questions will follow. The Minister of Pensions, for example, will shortly have to choose the first of a series of computers for his regional offices. American suppliers are, I understand, likely to be strong contenders for this contract.

2. In all of these cases the decisions we reach must be seen to be consistent with our policy on computers. We have announced that we consider a flourishing British computer industry to be an essential element in our plans for the modernisation of British industry and commerce; and we have announced a whole series of measures designed to achieve this. The purchase by the Government itself of foreign computers when adequate British machines exist would be bound, in my view, to suggest that we are not serious in our intention to support the British manufacturers. It would be widely taken as evidence of our lack of confidence in British computers. We can hardly urge others to use machines that we are not prepared to use ourselves. Much more is at stake than the loss to the British manufacturers of one or two particular orders.

3. These considerations are reinforced at this time when our policies are new, when the British computer industry is making a determined - and perhaps final - effort to meet foreign competition, and when we are about to undertake, following the Prime Minister's initiative with the French President, an examination of the possibilities of fruitful collaboration between our computer manufacturers and those interests in France who want to escape from the American domination of the industry.

4. When we drew up our proposals for the support of the computer industry it was then believed that British computers were broadly comparable in performance and price with those of foreign ones and that the main handicap to sales was our inability to provide software. At that time it did not appear that price was a sufficiently cogent consideration to recommend any discrimination in the provision of computers for Government use. Since then, evidence has accumulated to show that British manufacturers cannot offer the larger computers, costing about £500,000 or more, as cheaply as their American competitors. Two important causes for this are the benefit of long production runs for the large American home market; and the Federal and State Authorities 

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practice of buying the computers they need from an American supplier unless his quotation exceeds that of a foreign supplier by at least 50 per cent. We must now consider to what extent our procurement practices need amendment.

5. It would be consistent with our policy of support for the British computer industry if, when procuring computers for use by Government Departments, British machines were purchased unless:

(a) no British machine can meet the requirement; or

(b) there would be serious delay to the start of work (say two years); or

(c) there is a gross disparity in the price tendered to the Stationery Office (say 25 per cent or more).

6. The adoption of these criteria need not affect the confidence of users and manufacturers in the objectivity of the technical advice available from the Ministry of Technology's Computer Advisory Service. We can make it plain that for Government purchases other, wider, considerations have to be taken into account. We should also make it clear that while we were in no position to impose our criteria on other users in the public sector, we would hope that they would follow our lead. There are already welcome signs that some users, e.g. the Greater London Council, are ready to use British computers in preference to American even at some additional cost.

7. It may be argued that this more direct line of support for the British manufacturers would produce the undesirable consequences of feather bedding. This risk is minimised by the fact that Government orders do not form a major share of the market. It would be reduced even further by making it clear to the British manufacturers that these special measures of support were intended to help them re-establish and consolidate their competitive position over, say, the next three years and would be subject to review in the light of their own efforts.

8. It may also be argued that to give this measure of preference to the British manufacturers would be challenged as being contrary to our general commercial policy. I very much doubt whether this is a serious risk. In any event, I believe a convincing case for Government support on the lines I suggest can be made on the grounds of the key importance to technological advance in our industry and commerce of a flourishing, independent computer industry.

9. I recognise that the adoption of the criteria proposed in paragraph 5 could not be long concealed. Indeed I would see no point in attempting to do so and we should be prepared to announce them publicly in the House.

10. I therefore ask my colleagues to agree that:

(a) the contract for the computer for the Scottish Departments should be placed with International Computers and Tabulators Limited (I. C. T.);

(b) the invitation to tender for the Farnborough computer should be confined to I. C. T., English Electric and Elliott Automation; and

(c) decisions on future purchases of computers for use by Government Departments should be based on the criteria set out in paragraph 5 above.

F. C.

Ministry of Technology, S.W.1.
29th April, 1965
CABINET

COMPUTER PURCHASES BY THE GOVERNMENT

Memorandum by the Minister of Pensions and National Insurance

My Department is likely to be converting extensively to automatic data processing for the administration of the national insurance scheme, including payment of pensions and other benefits. I have therefore had to consider the implications of the criteria suggested by the Minister of Technology in his memorandum (C. (65) 66) on future purchases of computers.

2. In the development of some of our policies in the social security field we shall be relying heavily on very large computers, not simply to save money, but to enable us to implement our policies at all. The speed with which we can implement them, once decisions have been reached, will therefore depend on the speed with which we can install the necessary new computers. I have in mind particularly our undertaking to equip ourselves to increase pensions much more quickly on future occasions and our undertaking to reform the present pensions scheme itself. To have to delay the introduction of such schemes to any significant degree in order to give preference to the British computer industry would I am sure be quite unacceptable.

3. Nor can we tie ourselves exactly to a bare adequacy of British tendered equipment to meet our requirements. We must have adequate reserves of capacity and assured performance in any equipment to which we propose to commit the payment of pensions and other benefits. A breakdown of any such system due to inadequacy of equipment would be a political catastrophe of the first order. We cannot afford to take equipment whose development has not been perfected.

4. The Minister of Technology refers to the tenders received for the first of a series of computers to be installed in the Regions for the payment of national insurance short term benefits. I have not yet reached conclusions on these tenders. But this too is a field in which we cannot take risks that the equipment offered will not come up to its promised performance and in which delay would be expensive in terms of eventual savings forgone - these will be well in excess of £1 million a year.

5. I must urge therefore that if any criteria are established for decisions on future purchases of computers they should allow sufficient latitude for the meeting of special needs in particular cases.

M. H.


3rd May, 1965
C. (65) 69

4th May, 1965

CABINET

THE LAW RELATING TO HOMOSEXUAL OFFENCES

Memorandum by the Secretary of State for the Home Department

Lord Arran will move the following Motion in the House of Lords on Wednesday, 12th May:

"To call attention to the recommendations of the Wolfenden Committee on homosexual offences; and to move for Papers".

He will advocate the implementation of the Wolfenden recommendations that homosexual behaviour between consenting adults in private should cease to be a criminal offence, and he expects to be supported by at least a dozen speeches from both sides of the House, from the Bench of Bishops and from the Cross Benches.

I consider that the basic Government attitude should be that this is a matter for personal judgment; that debates of this kind serve the useful purpose of focusing public attention on the essential considerations; that the strongest opinions are at present widely held on both sides; and that the Government would not think it right either to advise against implementation of the Wolfenden recommendations or to come out in support of it.

I am reluctant however to adopt a wholly neutral attitude, without offering some guidance to the growing body of opinion in favour of a change in the law on how in the Government's view a change might be brought about. For the foreseeable future Government legislation must I think be ruled out, and the question arises how far we should go in encouraging a Private Member's Bill.

I think that the least that could be said would be that the appropriate course for those in Parliament who support a change in the law would be to introduce a Bill at a suitable opportunity so that Parliamentary opinion may express itself on specific provisions implementing the Wolfenden recommendations; and that while the Government could not undertake to provide time for the Bill, they would not wish to obstruct it and would be content with the decision Parliament reached on a free vote.
But, after consulting the Home Affairs Committee, I think it might be desirable for the Government spokesman to go further and indicate that if there appeared to be a general wish that a Private Member's Bill should be discussed, and that this could not be done unless the Government made time available, then the Government would consider providing such time, although there was no possibility of their doing so in the present Session. This would imply recognition by the Government that the issue was one of sufficient public importance for Parliament to be enabled to reach a conclusion upon it, but the Home Affairs Committee would welcome such an undertaking.

Lord Arran does not think that after receiving the strong support he expects in the debate he should withdraw the Motion, and he envisages that it would then go to a Division. I propose, at the suggestion of the Home Affairs Committee, that the Government spokesman should not advise the House either to accept or to reject the Motion, and that Government supporters, including Ministers, should be left free to vote according to their personal judgment. I understand that there would be no need to supply any papers in response to the Motion, if it were carried, unless Lord Arran asked in his speech for specific information.

I invite the Cabinet to agree that Lord Stonham, on behalf of the Government, should adopt a neutral attitude to the Motion but should indicate the Government's willingness to make Government time available for the consideration of a Private Member's Bill should it appear that there was a general wish that such a measure should be discussed; and that a Division should be handled on the lines indicated in paragraph 6 above.

F. S.

Home Office, S. W. 1.,

4th May, 1965
CABINET

DEDUCTION OF TRADE UNION SUBSCRIPTIONS FROM PAY

Memorandum by the Lord President of the Council

The Cabinet discussed on 4th March (C. C. (65) 14th Conclusions, Minute 6) a proposal that the Government should accede to a request from the Staff Side of the National Whitley Council that the facility of the deduction of trade union subscriptions from pay should be granted to any recognised Civil Service staff association which sought it, but no conclusion was reached. The Prime Minister subsequently asked me to consider the questions at issue more fully in consultation with the Ministers concerned. I have had discussions with the Secretary of State for Scotland, the Chancellor of the Duchy of Lancaster, the Minister of Labour, the Postmaster General, the Paymaster General, the Minister of State, Department of Economic Affairs, the Chief Whip and the Financial Secretary, Treasury.

The original proposals

The proposal before the Cabinet on 4th March was that, in respect of unions with a political levy, there should be two rates of deduction, one for those who paid the political levy and the other for those who did not. We consider this arrangement objectionable on the ground that it would enable the Government to deduce the movements of political opinion among its employees from the fluctuations in the number of deductions at the higher rate, but we thought that to deduct subscriptions at a single rate which would include the political levy and leave it to contracted-out members to claim the levy back from the union would be no less objectionable both on legal and political grounds. We should have been willing to accept deduction of the industrial subscription without the political levy, but, as we expected, the Union of Post Office Workers and the Post Office Engineering Union, the only two unions concerned who have a political levy, proved when consulted to be unwilling to accept this arrangement.

Alternative proposals

The Post Office unions have, however, put forward alternative proposals, namely that the employer should collect the subscription at a rate including the political levy, and that the unions should pay contracted-out members in advance at the beginning of the subscription year the amount which would be deducted from their pay during the year in respect of the levy, about 3s. or 4s. a year according to the union. This would ensure that the Government did not know which employees paid the levy, that the union complied with the legal obligation to
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relieve the contracted-out member of payment of the levy, and that the union did not benefit from the use of the levy during a period between its collection and its repayment to contracted-out members. The arrangement might still be open to criticism that the Government were facilitating a deduction which benefited only their own party, and we could not rule out the possibility that a Private Member's Bill might be introduced to prohibit the deduction of trade union subscriptions from the pay of Government servants. On the whole, however, it seems better to accept these risks than to refuse to the Civil Service unions a facility which is increasingly being given by private employers and the nationalised industries. We recognise that if we give the facility to the Civil Service we shall shortly be asked to make it available to employees in the National Health Service. Since, however, it would be part of the arrangement that the union in question would meet the administrative costs, we do not think that the further spread of the practice of deduction need deter us.

It will be essential, however, to stipulate that each employee must make an individual request for deductions to be made, and that this request must be demonstrably voluntary. We contemplate that the union should provide their members with individual forms on which to make the request, and that these forms would be sent by the union to the employing Department. Clearly the circulation of a list to which members willing to participate in the arrangement were asked to add their names would not be an adequate safeguard against union pressure. A contracted-out member who agreed to the deduction of the union subscription from his pay would claim and receive a rebate direct from the union, so that the Government would have no part in this process. The detailed administrative arrangements would have to be negotiated through the Whitley Council procedure and we do not propose that any announcement should be made until an agreement has been concluded.

Conclusion

It is recommended that the Government should agree, if so requested, to adopt a system of deducting trade union subscriptions from pay for any Civil Service union that desires it on the basis of a single rate of deduction, including the political levy, the union undertaking to pay to contracted-out members at the beginning of the financial year the amount of levy to be deducted during that year. This arrangement should be conditional on the negotiation through the appropriate machinery of detailed arrangements which would ensure that the agreement of the individual member to the deduction of his subscription from pay is voluntary, on the lines indicated in paragraph 4 above.

H. B.

Privy Council Office, S. W. 1.

4th May, 1965

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CABINET

IMMUNITIES AND PRIVILEGES FOR THE
COMMONWEALTH SECRETARIAT

Memorandum by the Chancellor of the Duchy of Lancaster

The Cabinet, at their meeting on 6th April (C. C. (65) 23rd Conclusions, Minute 1), referred to the Home Affairs Committee for further consideration the question of the immunities and privileges to be accorded to the senior officers of the Commonwealth Secretariat.

The Problem

2. It has already been agreed that "High Officers" of the Secretariat, i.e. the Secretary-General and his Deputy or Deputies, should have the full diplomatic range of immunities and privileges. The question at issue is whether the remaining senior officers of the Commonwealth Secretariat should have the immunities and privileges accorded to members of diplomatic missions or those appropriate to senior officers of international organisations. The senior officers in question are seven or eight Heads of Department of Councillor or First Secretary rank.

3. The difference between diplomatic immunities and privileges and those accorded to international organisations (in respect of which the protocol negotiated for the European Space Research Organisation (ESRO) is intended to form a model for the practice in this country) is as follows. Diplomatic status implies personal immunity from suit and legal process for the diplomat and his family, inviolability of his private residence, continuing customs privileges and reimbursement of purchase-tax on British motor cars. The ESRO scale confers immunity from suit and legal process on officers (other than High Officers, who enjoy the diplomatic scale) in relation only to their official acts (and not on their families), and inviolability only in relation to official papers and documents. Official immunity does not extend to motor accidents or traffic offences. Customs privileges are confined to the right to import furniture and personal effects on first arrival and a refund of purchase tax on the first British car purchased.

Disagreement

4. Further discussion has not brought the Home Affairs Committee to a solution of the problem. There remains opposition to the grant of diplomatic status, but some members agree with the Secretary of State for Commonwealth Relations in thinking that the importance of putting no obstacle in the way of the successful establishment of the Commonwealth Secretariat outweighs the objections.
Arguments against giving diplomatic status

5. Against the grant of diplomatic status it is argued:

(a) that diplomatic immunities and privileges have been evolved specifically for the protection of members of a diplomatic mission of one sovereign country in the territory of another. They can be justified on the ground that they are necessary if the mission is to be free to discharge its functions without hindrance from the authorities of the country in which it serves;

(b) that the Commonwealth Secretariat is not a diplomatic mission but an international organisation comparable to the specialised agencies of the United Nations and to bodies such as ESRO; and that international organisations of which the host country is a member do not need for the discharge of their functions as high a degree of immunities and privileges as diplomatic missions;

(c) that to give senior staff of the Commonwealth Secretariat a higher rate of immunities and privileges than the nature and functional needs of the organisation require will undermine our policy of attempting to persuade other countries to limit immunities and privileges to those required for the efficient operation of the organisation in question;

(d) that if we depart from this principle in favour of the Commonwealth Secretariat we shall be exposed to pressure which we shall not be able to resist from other Commonwealth, and a number of international bodies, including Commodity Councils;

(e) that there would consequently be a risk of a considerably larger number of overseas officers and their families being placed in a position to commit offences with impunity and to inflict damage on British citizens who have no means of redress; and that this would be strongly criticised in Parliament and by public opinion.

Arguments in favour of giving diplomatic status

6. On the other hand, it is urged:

(a) that it is important that we should not be thought by the rest of the Commonwealth to be reluctant to make a concession which they insist is essential to the success of the Commonwealth Secretariat;

(b) that there is reason to think that men of the high quality necessary to staff the Commonwealth Secretariat, who would be qualified for senior posts on the staff of their country's High Commissioner in London, will be reluctant to accept posts on the Secretariat conferring a lower status and fewer tangible benefits;
(c) that as the senior organ of the Commonwealth, the Secretariat will have a position in London which can reasonably be held to be unique; and

(d) that, even if this proves over-optimistic, the successful launching of the Secretariat is of sufficient importance to outweigh both the possible embarrassment of creating a precedent for giving immunities and privileges not justified by functional need and the dislike of the public and Parliament for any increase in the number of persons enjoying immunities and privileges.

Conclusions

7. No compromise has been put before the Home Affairs Committee other than that submitted to the Cabinet by the Secretary of State for Commonwealth Relations in C. (65) 55, i.e. that for representational purposes (as distinct from personal consumption) the senior officers should be allowed reasonable quantities of duty-free liquor and tobacco under the control of the Secretary-General, and that they should be given a refund of petrol duty. This compromise was not accepted at the Cabinet's previous discussion but if the Cabinet wish to look at it again the Secretary of State for Commonwealth Relations will be able to explain it more fully. Otherwise the choice appears to lie between conceding diplomatic immunities and privileges and adhering to the E.E.O scale, notwithstanding that the Commonwealth countries have hitherto not found this scale acceptable.

D. H.

Whitehall, S. W. 1.

4th May, 1965
CABINET

IMPORTS OF COTTON TEXTILES AFTER THE END OF 1965

MEMORANDUM BY THE PRESIDENT OF THE BOARD OF TRADE

It is urgently necessary to take certain broad policy decisions to enable discussions to be started with the developing countries, and primarily with India, Pakistan and Hong Kong, which export cotton textiles to the United Kingdom.

2. Annexed is a paper by the Chairman of the Official Committee on Commercial Policy which sets out the background to this complicated issue; explains why the question of the protection of the British cotton industry after the end of this year involves a break with past policies; and makes recommendations, and in some cases alternative recommendations, as to the courses that might be pursued in 1966 and thereafter.

3. My own view is that our objective should be to set a total limit on imports of cotton textiles from less developed countries by means of a global quota. I should be ready to agree to some measure of country quotas within this total, if this would make the principle more acceptable to the supplying countries and if, as I believe, it might serve to mitigate the pressure on prices in our home market. We should allow an annual rate of increase of 1½ per cent, which is approximately the likely increase in domestic consumption, in the total import figure, and we should aim at maintaining the new system of protection for at least three years and preferably for five. This would carry out our undertakings to the developing countries, while allowing some increase in the Lancashire industry’s sales at home.

4. I am satisfied that a scheme on these lines is the best means of ensuring to the British industry the further period of stability that it requires to complete the reorganisation in which it is at present engaged. Unless we can offer a solid assurance on the total level of imports, there is a serious danger that the further capital investment in the industry which the large new groups are now contemplating may not be forthcoming on an adequate scale. Without this, I see no prospect of the cotton textile industry becoming an effective part of our economy, and there would be a serious risk of wasting the investment that has already occurred over the last two or three years. On the other hand, given the assurance of a predictable limit upon imports of low-cost textiles, I believe it is now reasonable to expect
that the industry will, by 1970, be highly capital intensive, economical in the use of labour and well-equipped; and that it will no longer remain the formidable problem which it has been to successive Governments for most of the present century.

5. I am opposed to the suggestion that we should at present contemplate the imposition of a tariff on Commonwealth goods. This would be contrary to all that we have said both about our intentions towards developing countries in general and about Commonwealth trade and—particularly just before a Commonwealth Prime Ministers' Conference—would be likely to precipitate reactions in the Commonwealth which might injure our exports. Even if this were not so, I am not at present satisfied that the use of the tariff would secure a predictable level of imports, which I believe to be essential for the next few years.

6. I do not think that we need or should decide at present whether in the longer term we should contemplate tariffs on Commonwealth cotton textiles. Long-term policy in this field depends not only upon the strength of our own industry but upon the import policies of other countries, notably the United States and the European Economic Community (E.E.C.). We must see how these develop and how we can influence them before we make our own decisions.

7. If my colleagues agree that we should proceed on the broad lines I have suggested, I propose to inform the Cotton Board as quickly as possible of our intentions and to open negotiations with India, Pakistan and Hong Kong immediately thereafter. It is with these three countries that the main settlement must be hammered out first.

8. I must, however, warn my colleagues that the negotiations with supplying countries will be difficult and protracted, and that whatever course we take is likely to give rise to a great volume of protest both from them and from the British industry. If we are to reach any kind of of agreement with the developing countries and honour our obligations to them, we must be prepared to give more than Lancashire would wish us to offer; and I have little doubt that, in the course of the negotiations, we shall have to make further concessions in order to secure some measure of assent to our proposals both from the affected countries and in the General Agreement on Tariffs and Trade (GATT).

9. I would hope, however, that by claiming the utmost credit for the fact that we give far greater access to the cotton textile exports of developing countries than any other major industrialised country, we can both persuade the developing countries to accept something on the lines of the proposals I have outlined, and at the same time join with them in pressing the United States and the European Community substantially to improve their own poor performance in this respect.

D. J.

Board of Trade, S.W.1,
7th May, 1965.
IMPORTS OF COTTON TEXTILES AFTER THE END OF 1965

MEMORANDUM BY THE CHAIRMAN OF THE OFFICIAL COMMITTEE ON COMMERCIAL POLICY

1. Most of our present arrangements for restraining imports of low-cost cotton textiles expire at the end of 1965. The purpose of this paper is to obtain decisions from Ministers about the arrangements with which we should seek to replace them. This will involve deciding on the degree and nature of the protection to be given to the British cotton industry after this year having regard to our international commitments and the interests of our suppliers among the developing countries, particularly of the Commonwealth. In order not to disrupt business the arrangements for next year must be known by the late summer. Negotiations with supplying countries are likely to be prolonged and it is urgent to make a start on them.

Background to the present position

2. The first voluntary agreements for the restraint of cotton textile exports to this country were concluded with India, Hong Kong and Pakistan in 1959 after nearly two years of negotiation. Prior to 1958, United Kingdom imports had been rising at a rate of the order of 40 per cent per annum, and there appeared to be an imminent danger of the complete collapse of the British industry which had been declining for most of the present century. The rapid growth of imports coming mainly from the Commonwealth and from which the tariff provided no protection, coupled with the rigidly horizontal structure of the industry, the obsolescence of much of its equipment and its fragmentation into an immense number of small units, threatened to deprive it of all power of recovery. Parallel with action to limit imports, therefore, the Cotton Industry Act 1959 was introduced to provide financial assistance for the scrapping of old machinery and the purchase of new. The restraint agreements with the three Commonwealth countries were re-negotiated for a further three years in 1962, permitting higher export quotas but nevertheless designed to provide a further period of protection to enable the reconstruction of the industry to proceed in the confidence that it could count on a reasonably stable share of the domestic market.

3. From 1962 onwards, however, it became apparent that the industry did not, in fact, feel this confidence. Following the limitation of exports from the three Asian Commonwealth countries, other developing countries from every continent except Australasia which were building up their textile industries began to supply the British market or to increase supplies which had previously been insignificant. The cyclical recovery in textile demand in this country which began late in 1963 accelerated the process; and by early 1964, the speed with which imports from some sources were growing (cf. Brazil, Colombia, Korea and Malaysia in Table 3 of Annex I) led us to impose import licensing of cotton textiles, primarily to discover the extent to which the visible rise in imports...
was accompanied by forward orders threatening a further increase. The volume of forward orders prove formidable. But the only means by which restraint could be secured from all these countries was by negotiation with them on the basis of the GATT Long-Term Arrangement on Cotton Textiles (the terms and purpose of which are described in Annex III). By the end of 1964, we had negotiated, or were in negotiation for, restraint agreements with 19 countries. (These are listed at (a) and (c) of Annex II.) The net result of a prodigious expenditure of time and energy on import limitation has, in fact, been a continuing average rise of some 15 per cent a year in the level of our imports from developing countries since 1958. The total proportion of our consumption now met from imports is about 40 per cent, of which three-quarters come from less developed countries; and the relation of this proportion to the position in the United States and the E.E.C. is illustrated by the following table:

<table>
<thead>
<tr>
<th>Total imports (1963)</th>
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</tbody>
</table>

4. Until 1963, it appeared that the reconstruction of the industry which the 1959 Act was designed to foster would not be forthcoming. For although a great deal of obsolete machinery was scrapped and a considerable amount of modern equipment was installed (the Government contribution to scrapping and re-equipment was about £25 million), and although the closure of mills was accelerated, there was little sign of any major change in the horizontal structure of the industry or of the creation of significantly larger units. In that year, however, the two big man-made fibre producers, Courtaulds and I.C.I., began to build up what are now their big interests in the industry (they are now directly or indirectly involved in over one-third of the industry's production) and continued the process vigorously during 1964. This offers the prospect of a radical improvement in the efficiency of the industry.

The prospects of the British industry

5. Over the last decade, the continuing contraction of the industry has resulted in a fall of about 40 per cent in its production and of about half (from 300,000 to 160,000 in spinning, weaving and finishing) in its labour force. This reduction has not been reflected in high unemployment; unemployment in the cotton areas is below the national average. The growth of other industries in the North-West has absorbed the available labour, so that the cotton industry now employs only some 7 per cent of the labour in the cotton belt. This includes a relatively high proportion of older workers and there will be a correspondingly high wastage over the next few years. It is unlikely that by 1970 employment will exceed 120,000 and it may well be much less. In the Board of Trade's opinion, however, production will not fall in anything like the
same proportion, and may indeed not fall appreciably further if, as now seems probable, productivity in the industry shows a rapid and substantial increase. The scope for such an increase is great, and with the control which the wealthy and efficiently managed man-made fibre firms and their protégés now have in the industry it is likely to be exploited. Increased machine utilisation (ours is still currently the lowest in the world) by mill grouping, by long runs, and by shift working, which is more acceptable to the new generation of union leaders, is already getting under way. The new groups in the industry also have an essentially vertical conception of organisation; their interest lies largely in the development of integrated production, embodying both cotton and man-made fibres, and marketing—the sale of branded, advertised products—which itself reduces the scope for imports. But, on the information which the groups have given us, it will take them some four to five years to organise and re-equip the sector of the industry they have acquired during the last two years or so. This appears to us a reasonable estimate.

The decision to be taken

6. It is against this background that we have considered three questions:

(i) Is further protection against imports from developing countries desirable after 1965, and if so, for what period?
(ii) If protection is desirable, how should it be provided?
(iii) What level of imports should it aim at permitting?

The need for further protection

7. The Cotton Board has urged in a memorandum ("The case for a viable United Kingdom cotton industry") to the President of the Board of Trade that there should be a period of at least five years of further stability of imports; and this period accords pretty well with that which the new groups say they will need to complete the reorganisation of their acquisitions. The Government are not as yet committed to any period, or to any definition of stability, though the President in reply to a Parliamentary Question on 10th December said that "The Lancashire industry is now engaged in vigorous and effective reorganisation which must not be impeded by excessive imports". Officials are agreed that a further period of quota protection is a reasonable objective, though they do not agree on the length of time for which it should run. Officials are also agreed that it should be made clear both to the British industry and to the exporting countries that it is intended to adopt a substantially more liberal policy on imports after the period of special protection, though they cannot foresee that the Lancashire industry will ever be able to stand up to Commonwealth competition without some protection by way of tariffs or quotas. Internally a more liberal policy on imports is desirable to maintain the vigour and urgency of the present reorganisation and to bring the maximum pressure upon inefficient producers to get out of the industry. Externally, it is desirable both to facilitate the negotiations with supplying
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countries, and to put an end as quickly as practicable to the embarrassments to our relations with a number of overseas countries which the continued special protection of the British cotton industry has involved.

The means of protection

8. It is not feasible to provide a further period of protection for the British cotton industry simply by extending the existing arrangements. Few countries would be ready to continue these arrangements without an increase in their quotas. Moreover we do not have firm arrangements with a number of existing suppliers: in some cases we are still in negotiation while in others we have arrangements simply designed to hold the position for the time being. With these countries and with the potential new suppliers there are, therefore, no permanent arrangements to extend. Thus if we were to continue with existing practice we should have to be ready to reach agreements with all existing suppliers and with newcomers as they emerge. Such a process would involve us in heavy concessions and would not provide any firm total limit on imports.

9. In their memorandum the Cotton Board considered that the best means of providing continued protection would be by means of a countervailing levy, i.e., a levy on imports to bring prices to within a defined percentage of fair domestic prices. If this were not practicable they asked for a total quantitative limit to be placed on imports from low-cost sources, preferably accompanied by a tariff at five-sixths of the most-favoured-nation (m.f.n.) rate on imports of cotton textiles from the Commonwealth. Subsequently they asked for control to be placed on imports from all sources, not for protective reasons, but to prevent low-cost supplies being brought in through third countries.

10. We do not think that it would be practicable or desirable—and certainly not negotiable—to introduce a countervailing levy on imports of cotton textiles. The majority of the Cotton Board recognise this.

11. We have also considered the proposal for establishing a Cotton Commission to deal in imported goods or to exercise control over their prices. The establishment of any such Commission would, however, be strongly resisted by the exporting countries who would regard it merely as a machine for collecting a variable levy. Moreover, the Commission would have to attempt to deal in a very wide variety of different cotton textiles (which are much more diverse than jute goods—the only textiles on which bulk buying has so far been tried). Its administration would be intolerably complex and its operation would be subject to constant criticism. For these reasons we could not advise Ministers to establish a Cotton Commission.

The tariff

12. The present m.f.n. rates of duty (7½ per cent on cotton yarn, 17¾ per cent on cloth and 20 per cent on made-up goods) have not prevented substantial imports from the non-Commonwealth
developing countries to which they apply. The effects of tariffs are hard to predict, but studies made by the Board of Trade suggest that at the present time higher levels, particularly on finished cloth and made-up goods, would be needed to stabilise imports at their present level and probably to keep the growth of imports within the limits that we should adopt if we relied on quotas. The extension of the m.f.n. tariff, even without any preference, to Commonwealth cotton textiles would thus not at present achieve our objective. It would probably be necessary therefore to increase the m.f.n. rates or to attempt to devise some specific element in the duties to provide effective protection against low-cost imports. Nevertheless the general view of officials is that, in the longer term and possibly by 1970, there would be substantial advantages in eliminating quantitative restrictions and using the tariff as the sole means of protection against imports from both Commonwealth and foreign countries if this could be negotiated.

Quantitative restrictions

13. Both the British industry as a whole, as indicated in the Cotton Board's memorandum, and the new groups within it, have placed the greatest possible emphasis on the need for a known limit on imports for the next five years. Their strongest and most bitter criticism of the existing system of quantitative limitation has been its inability to stop a continuing and unpredictable rise in the import level and to prevent new exporting countries from building up sales in this country as a basis for negotiating a "restraint agreement" which will entitle them to maintain or increase those sales. From the Government's point of view, a more serious criticism of the existing system is that, while providing little satisfaction to the industry, it involves an endless series of acrimonious negotiations with supplying countries (of which the protracted and bitter controversy with Malaysia is only one example). We are accordingly agreed in recommending that any quantitative restrictions after 1965 should provide a total limit on imports from low-cost sources. We also accept the view that to prevent excessive concentration of imports on particular goods, there should be separate quotas for a dozen or so categories of goods.

Alternative courses

14. It is agreed that our objective should be to arrive by 1970 at a position where the degree of special protection afforded to the British industry can be greatly relaxed and quantitative barriers to imports largely removed. This could most conveniently be done by substituting tariff protection for quotas by 1970. Different views are, however, held as to the timing and methods by which we should move towards this objective.

15. The Treasury and Department of Economic Affairs (D.E.A.) consider that, so long as quantitative restrictions are retained, they should take the form of a global quota shared by all developing countries. Their main reason for this view is that the additional competition engendered among suppliers within a global quota tends to bring down prices and therefore obtains any given volume of...
imports for the lowest cost to the balance of payments. Further, imports of cheap yarn and cloth would benefit the manufacturers of made-up goods. They consider that the import of a limited quantity of textiles need not substantially disrupt United Kingdom price levels. The Treasury estimate that the additional cost to our balance of payments entailed in the present system of country quotas is probably substantial.

16. These Departments recognise that there will be strong objections, as described in paragraph 20 below, to the complete replacement of country quotas by global quotas especially if the intention were to maintain such quotas for a further period of five years. The difficulties entailed, coupled with the necessity for safeguarding our balance of payments to the maximum possible extent, constitute a strong argument for the substitution of tariffs for quotas at the earliest possible date. Tariffs would have the effect of keeping our import prices down whilst reducing risks of price disruption to United Kingdom producers which other Departments fear might be entailed in a system of global quotas.

17. These departments consider, secondly, that it is desirable to make clear both to the industry here and to exporting countries abroad that quantitative controls over imports will be retained for only a limited period. It is common ground that it is essential to give a strong incentive to inefficient firms to improve their efficiency or to go out of business and so release resources for more effective use, but these Departments think that this can best be done by aiming to replace quotas by tariffs at the earliest practicable date which could only be discovered by negotiation. They would therefore advocate introducing a tariff for the present quotas on imports from the Commonwealth as soon as this could be negotiated. Given the uncertainty of the effect of a tariff, they recognise that quotas would still have to provide the main protection in the early stages but provided the initial tariff was at a sufficiently high level they would not rule out a transitional period during which the quotas were removed by a process of annual expansion and the tariff phased in. They also recognise that it is hardly possible to negotiate the necessary arrangements in the time available before the existing quota arrangements expire.

18. Their proposals are, therefore, (i) that in the forthcoming quota negotiations we should make it clear from the outset that we intend to replace quantitative restrictions by tariffs; (ii) that the new quota arrangements should cover 1966 and 1967 only; (iii) that during this period we should negotiate with the countries concerned for the introduction of effective tariff protection; (iv) that the quota arrangements during 1966 and 1967 should take the form of a global quota for all imports from developing countries, limiting the annual increase in those years to 1\% per cent in order to retain the maximum bargaining power for the subsequent negotiations over tariffs. The precise nature of these negotiations would depend on whether some increase in m.f.n. rates was felt to be needed or only the introduction of the m.f.n. rate or lower rate on imports from the Commonwealth.
It would, moreover, be necessary to take account of developments in the Kennedy Round and in the discussions on the review and extension of the GATT Long-Term Arrangement on Cotton Textiles.)

19. While the negotiation of such arrangements, as indeed of any in this field, would clearly be difficult the D.E.A. and Treasury do not believe that the objections raised by other Departments—see paragraph 20 below—are soundly based. A tariff would reduce the risks of price disruption. The other countries affected would no doubt object strongly to any arrangements which obliged them to reduce their prices below those which the existing or any other system of country quotas enabled them to charge. But these objections would apply equally at the stage when, as all Departments are agreed, quotas were replaced by tariffs. As regards our trade agreements with Commonwealth countries, no reason is seen to suggest that imposing a tariff on Commonwealth cotton textiles would substantially affect our trade agreements with any countries other than India and Pakistan and to a lesser extent, Canada and the Irish Republic; and with India and Pakistan the agreements are largely inoperative as regards our exports because of the tight import controls necessitated by both countries' balance of payments difficulties. Treasury and D.E.A. believe that the Commonwealth countries affected should in any event see advantages in exchanging a tariff for quotas; and that the strength of our position as much the most liberal country on cotton textiles, importing a third of our consumption from low-cost producers would be great enough to enable us to conduct these negotiations successfully at a cost to ourselves which would not be excessive.

20. Other Departments consider that these proposals have decisive disadvantages. They doubt whether the saving to the balance of payments due to the price effects of global quotas would be significant as a magnitude compared with other factors affecting our payments. But, precisely to the extent that the global quota was successful in depressing the prices of imports, it would through causing general price disruption fail to secure the confidence and incentives needed by the progressive elements in the industry to continue to make the investments needed to raise efficiency. For this purpose some price stability as well as a limitation on the total volume of imports is needed. Also, to the extent that prices were depressed, the method of control solely by global quota would be seen by developing countries as a device to minimise their currency earnings partly by the transfer of profit from exporters to importers and to force them into cut-throat competition one with another. This would be bitterly resented and would almost certainly prejudice the success not only of the immediate negotiations about the quotas but also the subsequent negotiations for replacing them with effective tariffs. The other Departments also consider that to propose now to place a tariff on imports from the Commonwealth would put our Commonwealth Trade Agreements seriously at risk and would raise at a most awkward moment the whole issue of Commonwealth free entry and preference. It would also accord badly with our recent initiatives in UNCTAD and the GATT directed to lowering tariff
barriers against the products of developing countries. On all these
grounds, the other Departments consider that to launch these ideas
at the present time would involve us in difficulties which would be
wholly disproportionate to the advantages that are claimed for them.
Moreover, even if they could be negotiated, they would not provide
the predictable level of imports over the next five years which the
industry seeks.

21. Accordingly, these Departments propose the following
alternative arrangements. The United Kingdom should put forward
a scheme of global quotas within which a proportion (say half as
an opening offer) of the total would be reserved in the form of
country quotas for at any rate the larger supplying countries; the
licensing of these country quotas would be in the hands of the
exporting countries, thus enabling them to exercise some control
over the prices they charged. In negotiation it might well prove
desirable to concede that more than half of the available total should
be allocated to the country quotas. Again it may prove desirable to
accord country quotas to all existing suppliers. But the aim should
be a level of total imports not greater than the average of 1963–64
(1964 was an exceptionally heavy year). We should open with an
offer to increase imports by ½ per cent a year (which accords roughly
with the expected annual increase in domestic consumption). It
might be necessary to concede more growth than this, especially on
finished and made-up goods. Whatever growth was conceded, we
should try to secure that it was added in whole or in part to the
global quota rather than to the country quotas. We should propose
that the arrangements would run for five years but should be subject
to review after two or three years when arrangements for the period
after 1970 might be considered in a preliminary way. At that point
we could, if it seemed desirable, introduce the idea of a change to a
tariff system in or even before 1970; indeed it might be advisable
from the outset to hint at the possibility of an ultimate tariff solution.

22. It may be asked whether it is necessary to concede any
increase in low-cost imports over the next five years. Apart from the
difficulty or negotiating an arrangement which made no provision
for an increase, we think that there are advantages in doing so. It
would reduce the possibility, if there were some increase in our
needs for imports of cotton textiles, that these would be met from
high-cost sources. A standstill on imports for the next five years
would result in slackening the pressure for reorganisation in
Lancashire and would encourage the survival of inefficient firms; it
would also make the transition to a freer régime in 1970 more
difficult. Equally important, if we were willing, despite our already
high rate of imports, to accept some increase, this would help to
divert the pressure of the developing countries towards securing
larger increases in the imports of other Western countries. It would
also strengthen their hands in doing so. This is very much in our
interest.

23. The imposition of quotas, as proposed in paragraphs 18
and 21 would be formally contrary to the GATT unless we invoked
the emergency provisions of Article XIX. In that case, however, the
application of quotas would have to be non-discriminatory; this would mean imposing them on imports from developed countries, which is unnecessary and would lead to further complications and opposition. We think that we could convince the Contracting Parties that the scheme proposed was a reasonable application of the GATT Long-Term Cotton Arrangement to our circumstances and could obtain their acquiescence in it.

24. With either alternative there will be a number of other international complications, some of them serious. Portugal is a low-cost manufacturer but as she is a member of EFTA we cannot impose either tariffs or quotas on imports from her. Japan, whose cotton textile exports to us are at present held to a very low level by special Treaty arrangements, which fall to be reviewed this year, will present a special problem. Imports from Eastern European countries and China are already subject to bilateral quotas which we should wish to continue though they may claim to come under the global quota.

Conclusions

25. (a) All Departments agree that the British cotton industry should be provided with a further period of special protection against excessive imports so as to allow the present reorganisation in the industry to proceed in an atmosphere of confidence.

(b) We do not think that we can foresee a situation in which the industry will be able to stand up to imports from the Commonwealth without the protection of either quantitative restrictions or a tariff. All Departments agree, however, that our objective should be to end the period of special quota protection by 1970 and that thereafter to provide the necessary protection for the industry by means of a tariff, if circumstances permit and this proves negotiable.

(c) While all Departments are agreed that we should work towards tariff protection, we are not agreed on the way in which this should be achieved:

(i) The Treasury and the Department of Economic Affairs consider that quota protection should be provided only for 1966 and 1967 and that we should aim to get a tariff in force by that time. These Departments consider that we should embark as soon as possible on the necessary negotiations.

(ii) Other Departments take the view that we should aim to negotiate quota arrangements to last until 1970, but that we should aim nevertheless well before this time to begin discussions with other countries about a tariff solution. Thus the Treasury and the D.E.A. favour making it clear now that we are working towards a tariff solution; other Departments consider that this would not provide the Lancashire industry with a predictable level of imports and would also provoke too violent a reaction from Commonwealth countries and that no positive steps should be taken on the tariff for a year or two (though, if Ministers agreed, it might be desirable to hint, at least in informal discussion with Commonwealth countries, at the possibility of a tariff solution).
(d) Departments are also not agreed on the form of quota protection (whatever the period for which it endures):

(i) The Treasury and D.E.A. favour global quotas for imports from all low-cost producers so that there will be the maximum competition among supplying countries, and accordingly that the cost to the balance of payments will be least.

(ii) Other Departments consider that global quotas alone, by reason of their price effects, would fail to provide the necessary assurance to Lancashire and would be unacceptable to many exporting countries. The other Departments accordingly consider that we should seek arrangements under which exporting countries would be given quotas equal to half (and probably, after negotiation, more than half) of their entitlement, with the balance made available in global quotas.

(e) All Departments are agreed that we should open by offering to increase imports by 1 or 1\frac{1}{4} per cent a year. If quotas were settled for only two years ((c) (i) above) the Treasury and D.E.A. consider that every effort should be made to hold growth to this level so as to preserve maximum bargaining power. But if quotas are negotiated for five years ((c) (ii) above) all Departments agree that we must reckon that it will be necessary in negotiation to concede rather higher rates of growth, especially on finished cloth and made-ups.
## ANNEX I

### TABLE 1

**United Kingdom Imports of Cotton Textiles(1) from all Sources**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Yarn (m. lb.)</td>
<td>...</td>
<td>22</td>
<td>39</td>
<td>44</td>
<td>32</td>
<td>36</td>
<td>41</td>
</tr>
<tr>
<td>2. Greycloth (m. sq. yds.)</td>
<td>337</td>
<td>461</td>
<td>597</td>
<td>576</td>
<td>431</td>
<td>484</td>
<td>611</td>
</tr>
<tr>
<td>3. Finished cloth (m. sq. yds.)</td>
<td>49</td>
<td>76</td>
<td>131</td>
<td>155</td>
<td>144</td>
<td>153</td>
<td>136</td>
</tr>
<tr>
<td>4. Made-up goods (m. sq. yds. equivalent)</td>
<td>84</td>
<td>63</td>
<td>128</td>
<td>132</td>
<td>154</td>
<td>166</td>
<td>207</td>
</tr>
<tr>
<td>Total 2-4 (m. sq. yds.)</td>
<td>450</td>
<td>620</td>
<td>856</td>
<td>863</td>
<td>729</td>
<td>803</td>
<td>974</td>
</tr>
</tbody>
</table>

**Note:**

(1) Including imports for re-export, separate figures for which are not available for earlier years.

### TABLE 2

**United Kingdom Imports of Cotton Textiles(1) from Low-cost Sources(2)**

<table>
<thead>
<tr>
<th></th>
<th>1962</th>
<th>1963</th>
<th>1964</th>
<th>Average 1963-64</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Yarn (m. lb.)</td>
<td>...</td>
<td>21</td>
<td>27</td>
<td>32</td>
</tr>
<tr>
<td>2. Greycloth (m. sq. yds.)</td>
<td>326</td>
<td>364</td>
<td>419</td>
<td>391</td>
</tr>
<tr>
<td>3. Finished cloth (m. sq. yds.)</td>
<td>49</td>
<td>64</td>
<td>69</td>
<td>67</td>
</tr>
<tr>
<td>4. Made-up goods (m. sq. yds. equivalent)</td>
<td>107</td>
<td>129</td>
<td>157</td>
<td>143</td>
</tr>
<tr>
<td>Total 2-4 (m. sq. yds.)</td>
<td>482</td>
<td>557</td>
<td>645</td>
<td>601</td>
</tr>
</tbody>
</table>

**Notes:**

(1) For retention only; i.e., excluding imports of greycloth for process and re-export.

(2) All countries (other than the Sino-Soviet bloc) whose exports are to be subject to restraint post-1965, viz. all countries except United States, Canada, Irish Republic, E.E.C., EFTA (but including Portugal), Australia, New Zealand.
## Table 3

**United Kingdom Imports of Cotton Textiles**<sup>(1)</sup> from New Low-cost Sources

<table>
<thead>
<tr>
<th>Country and item</th>
<th>Imports</th>
<th>Quota levels</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1962</td>
<td>1963</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greycloth (th. sq. yds.)</td>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Brazil</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Colombia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greycloth (th. sq. yds.)</td>
<td>128</td>
<td>506</td>
</tr>
<tr>
<td>Greece</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yarn (th. lb.)</td>
<td>188</td>
<td>506</td>
</tr>
<tr>
<td>Israel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yarn (th. lb.)</td>
<td>785</td>
<td>1,150</td>
</tr>
<tr>
<td>Korea</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greycloth (th. sq. yds.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Macao</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Made-up goods (£'000)</td>
<td>14</td>
<td>476</td>
</tr>
<tr>
<td>Malaysia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greycloth (th. sq. yds.)</td>
<td>4,599</td>
<td>5,775</td>
</tr>
<tr>
<td>Finished cloth (th. sq. yds.)</td>
<td>5</td>
<td>416</td>
</tr>
<tr>
<td>Made-up goods (th. sq. yds.)</td>
<td>12</td>
<td>1,243</td>
</tr>
<tr>
<td>Mexico</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greycloth (th. sq. yds.)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Turkey</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Greycloth (th. sq. yds.)</td>
<td>4,795</td>
<td>3,696</td>
</tr>
<tr>
<td>United Arab Republic</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Yarn (th. lb.)</td>
<td>593</td>
<td>620</td>
</tr>
<tr>
<td>Greycloth (th. sq. yds.)</td>
<td>764</td>
<td>1,967</td>
</tr>
<tr>
<td>Finished cloth (th. sq. yds.)</td>
<td>952</td>
<td>2,598</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Finished cloth (th. sq. yds.)</td>
<td>417</td>
<td>487</td>
</tr>
</tbody>
</table>

**Notes:**

<sup>(1)</sup> Including imports for re-export.

<sup>(2)</sup> Based on 1963-64 average imports, except for Brazil, Korea, Macao (1963 imports), and U.A.R. finished cloth (GATT formula).

<sup>(3)</sup> Quota established.
ANNEX II

RESTRICTIONS ON TRADE IN COTTON TEXTILES

<table>
<thead>
<tr>
<th>Country</th>
<th>Yarn (m. lb.)</th>
<th>Piecegoods (m. sq. yds.)</th>
<th>Made-up goods (m. sq. yds.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Countries for whom quotas have been established</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hong Kong</td>
<td>6.3</td>
<td>100.0</td>
<td>85.0</td>
</tr>
<tr>
<td>India</td>
<td>11.5</td>
<td>179.0</td>
<td>16.0</td>
</tr>
<tr>
<td>Pakistan</td>
<td>0.6</td>
<td>40.0</td>
<td>2.4</td>
</tr>
<tr>
<td>Malaysia</td>
<td>Negotiation</td>
<td>5.25(1)</td>
<td>Negotiation</td>
</tr>
<tr>
<td>Irish Republic</td>
<td>2.75</td>
<td>Unrestricted</td>
<td>£600,000(2)</td>
</tr>
<tr>
<td>Yugoslavia</td>
<td>Negotiation</td>
<td>5.3(2)</td>
<td>Negotiation</td>
</tr>
<tr>
<td>Japan</td>
<td>Nil</td>
<td>7.0</td>
<td>£510,000</td>
</tr>
<tr>
<td>Formosa</td>
<td>Nil</td>
<td>2.6(2)</td>
<td>Nil</td>
</tr>
<tr>
<td>Spain</td>
<td>8.4</td>
<td>40.0</td>
<td>Unrestricted</td>
</tr>
<tr>
<td>Portugal</td>
<td>1.6(2)</td>
<td>30.7(2)</td>
<td>4.6(2)</td>
</tr>
<tr>
<td>Israel</td>
<td>1.7</td>
<td>Unrestricted</td>
<td>Unrestricted</td>
</tr>
<tr>
<td>(b) Sino-Soviet bloc countries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Soviet Union</td>
<td>Nil</td>
<td>Approximately £2,000,000</td>
<td></td>
</tr>
<tr>
<td>Poland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bulgaria</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Roumania</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>East Germany</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Czechoslovakia</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>China</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c) Countries with quotas under negotiation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Brazil</td>
<td>Negotiation</td>
<td>Negotiation</td>
<td>Negotiation</td>
</tr>
<tr>
<td>Colombia</td>
<td>Unrestricted</td>
<td>Negotiation(6)</td>
<td>Unrestricted</td>
</tr>
<tr>
<td>Greece</td>
<td>Negotiation</td>
<td>Unrestricted</td>
<td>Negotiation</td>
</tr>
<tr>
<td>Macao</td>
<td>Negotiation</td>
<td>Negotiation</td>
<td>Negotiation</td>
</tr>
<tr>
<td>Mexico</td>
<td>Negotiation</td>
<td>Negotiation</td>
<td>Negotiation</td>
</tr>
<tr>
<td>South Korea</td>
<td>Negotiation</td>
<td>Negotiation</td>
<td>Negotiation</td>
</tr>
<tr>
<td>Turkey</td>
<td>Unrestricted</td>
<td>Negotiation(6)</td>
<td>Unrestricted</td>
</tr>
<tr>
<td>U.A.R.</td>
<td>Negotiation</td>
<td>Negotiation</td>
<td>Unrestricted</td>
</tr>
</tbody>
</table>

Notes:

1(1) Existing quotas relate to piecegoods from Malaya. Negotiations in progress to cover all cotton textiles from all parts of Malaysia.
2(2) Restrictions apply only to garments made from Japanese or Sino-Soviet bloc cloth.
3(3) Restrictions apply to greycloth only. Negotiations in progress to cover finished cloth, yarn and made-up goods.
4(4) Quota applies to greycloth only; nil quota for finished cloth.
5(5) Quotas under re-negotiation.
6(6) Negotiations apply to greycloth only; finished cloth unrestricted.
ANNEX III

GATT LONG-TERM ARRANGEMENT REGARDING INTERNATIONAL TRADE IN COTTON TEXTILES

This Arrangement, which entered into force in the autumn of 1962, allows importing countries to deviate from their full GATT obligations towards exporting countries so far as cotton textiles are concerned. It provides for the imposition of quota restrictions where imports of particular cotton textiles from particular sources cause or threaten market disruption. Where quotas are imposed, they must be increased by 5 per cent per year. The Arrangement also provides for the progressive increase of those quotas which had been imposed by some countries before the Arrangement was concluded and in this connection the E.E.C. undertook to increase their quotas by over 10 per cent a year.

2. Because the United Kingdom met a much higher proportion of its consumption of cotton textiles from imports than any other major country and because of the exceptional contraction in our industry, we were exempted from general growth obligations in the Arrangement by a special Protocol which was accepted by all the participants except Pakistan. The United Kingdom was not, however, exempted from the obligation, to provide some reasonable level of trade for new supplying countries as they emerged.

3. The Arrangement will expire in the autumn of 1967 unless it is renewed in the meantime. In practice there is little doubt that it will be renewed on some basis or other. It will be an object of United Kingdom policy to see that other developed nations undertake obligations to allow substantial growth in their imports.

4. The United Kingdom supported the negotiation of the Arrangement so as to provide a framework for resisting more drastic limitation of imports from the developing countries which was possible as a result of protectionist pressures in the United States and in parts of Western Europe. Our objects were to minimize the damage to the principles of the GATT to help the interests of exporting countries in the Commonwealth and, by seeking the largest possible growth obligations for developed countries, to reduce the pressure on our own market. The way in which the Arrangement has been used, particularly by the United States, has caused a good deal of dissatisfaction in developing countries. Many of these countries have indicated that they will be pressing, during the major review of the Arrangement which is due to take place late this year, for its re-negotiation or re-interpretation on a basis more favourable to themselves.
TRADE DISPUTES BILL: QUESTION OF RETROSPECTION

MEMORANDUM BY THE ATTORNEY-GENERAL

The purpose of this memorandum is to invite the Cabinet to approve a proposed amendment of the Trade Disputes Bill, which will shortly be considered by the House of Commons at Report stage.

2. The effect of the Bill, as at present drafted, will be that causes of action which have arisen, but in respect of which no legal proceedings have been instituted, before Royal Assent will be decided in accordance with the provisions of the Bill and not in accordance with the law as it now is. There will thus be some measure of retrospection, in that a potential plaintiff whose right of action has accrued before the Bill becomes law may lose that right.

3. When this topic was previously considered by the Cabinet on 21st January, 1965 (C.C. (65) 3rd Conclusions, Minute 4), it was thought that this degree of retrospection was unlikely to be strongly criticised and would not cause unnecessary difficulties in Parliament. Since then, however, the strength of opinion against retrospective legislation has been reinforced during the debates on the War Damage Bill. I think it most undesirable that the Government should be exposed to further attack by the Opposition on this issue—and on grounds far more favourable to the Opposition. The retrospective element in the Bill has already been strongly criticised in Standing Committee, and an Opposition amendment, which will allow three years for the commencement of proceedings, has been put down for Report stage. Quite apart from the probability of further criticism in the House of Commons, it is likely that the House of Lords would seize the opportunity to reopen the issue of retrospection and that the passage of the Bill would be delayed.

4. In these circumstances, I regard it as essential that the Bill should now be amended to reduce the element of retrospection. I therefore propose that the Bill should permit proceedings to be instituted within six months of Royal Assent in respect of causes of action which have then accrued. This would reduce from six years to six months the period within which proceedings could otherwise be brought. There is precedent for a limitation period of six months to be found in the law relating to proceedings against the estate of a deceased person.
5. This proposed amendment in my view will have little practical effect, as it will only relate to causes of action which arise before Royal Assent, and in respect of which no proceedings have then been instituted. There are unlikely to be more than a very few cases, if any, which fall within this category. But the importance of the amendment is that it will enable the Government to forestall further criticism that it is playing fast and loose with the principle that retrospective legislation can only be justified in most exceptional cases.

6. I recommend that the proposed amendment should be introduced at Report stage in the House of Commons.

F. E. J.

Law Officers' Department,
7th May, 1965.
11th May, 1965

CABINET

LINKS BETWEEN EFTA AND THE EEC

Memorandum by the Prime Minister

The progress towards consolidation of the European Free Trade Association (EFTA) as a free trade area and of the European Economic Community (EEC) as a customs union is already sharpening divisions within Europe. The danger is increased by the inward looking tendencies of the EEC and their habit of concentrating on the settlement of their own problems without regard to the effects on the economic and political unity of Europe. A widening of this division would be detrimental to our interests and indeed to those of the Western world as a whole. Moreover, the present position is unstable; the attraction of the Common Market is weakening our own spheres of interest. Thus Austria, Nigeria and East Africa are already in negotiation with the EEC for association with it, and others will be tempted to follow if they succeed.

2. The United Kingdom must not allow itself to become isolated in Europe. We must maintain the aim and hope of establishing closer political and economic unity in Europe in some form in which the United Kingdom can play a full and integral part. To do this we must build on the associations we already have; such a unity will have to be found on a basis acceptable to the countries both of the Six and of EFTA. It has to take account of the progress towards consolidation both of the EEC and of EFTA, and the likelihood that this progress will be carried further: we cannot, apart from major political upheavals in Europe, expect the Six to abandon the Community arrangements and the Treaty of Rome. Thus the ultimate solution seems only feasible in terms which it is still difficult to envisage - a solution based on the inclusion of the United Kingdom and other EFTA countries (some of the latter as Associates) in a Community based on the Treaty of Rome but developing and adopting policies acceptable to us. There can be no question of our trying to deal with this problem by seeking immediate entry to the Community, if only because of the General’s veto on us, in the meantime we must seek to prevent loss of confidence or cohesion in EFTA, which was shaken by the introduction of the import surcharge (though that difficulty seems now to have largely passed) and would be weakened if Austria decided to join the EEC on terms which meant leaving EFTA. If once Austria moved, we could not be sure that Denmark might not follow, and we could in the end find ourselves faced with the prospect of trying to negotiate entry into a larger Community from a position of considerable weakness.

3. Thus the problem is one of keeping up hope and direction at a time when it is not possible to take major initiatives to merge the two groups. Nonetheless there are various ways in which we could seek
to bring them closer together and to build bridges between them. The Chequers meeting with leaders of European Socialist Parties indicated that there is such great interest in this question that the present time is propitious for a discussion at the Vienna Meeting of the EFTA on 26th May of any ideas which may at least mitigate the dangers of the division of Europe, and perhaps help to promote its eventual unity.

4. What we can expect to achieve will inevitably be limited, but we should not underrate the psychological importance of such a discussion, especially as it is now clear that a number of EFTA Prime Ministers are prepared to attend the Vienna Meeting because of the value that they attach to it. The discussion will serve to demonstrate not only our concern with the problem of division in Europe but also our desire to solve it in conjunction with our EFTA friends.

5. At the same time we must guard against creating excessive expectations or fears about what we can reasonably expect to achieve. There is now general recognition that we cannot join the EEC without fundamental changes in our trading relations with other Commonwealth countries and in our agricultural system. We must avoid creating the impression that this is what we are proposing to do in the near future.

6. In the light of these considerations I feel that our objectives at the Vienna Meeting should be to restore the cohesion of EFTA, so far as we can do so without detriment to our longer-term prospects for entry into the EEC; to explore with our EFTA colleagues positive ways of reducing the trade barriers between the two groups and ways of preventing the inward-looking character of EEC policy making from creating new barriers; and to seek agreement with them for initiatives in these fields.

7. I suggest that the immediate need, to maintain the morale of EFTA and to build a bridge between EFTA and the EEC, would be well served by two proposals for institutional developments which I should like to put to the EFTA meeting in Vienna:

(a) the establishment of a standing joint Consultative Council of the member countries of the EEC and EFTA;

(b) an exchange of ambassadors between the EEC and EFTA.

8. The standing joint Consultative Council should consist of Ministers with a subordinate committee of senior officials. It might well supersede the discussion of economic affairs (but not political) which we have tried to maintain through the W.E.U., with the Governments of the Six since the Brussels breakdown, though this would obviously be more attractive to other members of EFTA than to us. The Council's terms of reference should provide primarily for the discussion of questions of general economic and commercial policy of particular interest to EEC and EFTA countries, with a view to avoiding divergences between the broad lines of development of the two groups and the removal of obstacles to mutual trade. In this way the Council could avoid duplication of discussions of economic questions in other and wider contexts, e.g. in C.E.C.D. The Council might also be
given a watching brief to look for opportunities to move towards a wider European market. Such a Council would probably be welcome to our EFTA partners and possibly to some of the Six, but the French would probably veto it. We need not on that account be deterred from putting the proposal forward.

9. An exchange of ambassadors between the EEC and EFTA would make possible a continuing dialogue between the two organisations, reinforcing the work of the Council and maintaining a momentum on the discussion of substantive proposals.

10. At Vienna we should go on from there to canvass - not as our own proposals but as ideas put forward in various quarters and meriting further consideration in EFTA and (if EFTA agreed) in the new institutional machinery - various substantive ideas for improving the links between the EEC and EFTA. After considering the memorandum by the Secretary of State for Foreign Affairs (C,(65) 52) I suggest that the following possibilities are worth considering:

(i) a wider free trade area created by the EEC joining EFTA, or (perhaps less provocatively) a new European free trading area in which EEC and EFTA would each be one member;

(ii) the maximum use of the Kennedy Round to reduce tariff barriers on industrial products;

(iii) a further reduction of tariff barriers on goods traded predominantly between the two groups (the benefits of which would be extended to other countries on an m.f.n. basis) to be negotiated in the light of the outcome of the Kennedy Round;

(iv) the formation of free trade area type arrangements for appropriate goods on the model of the United States/Canadian deal for motor vehicles and parts or the Swallow scheme for a free trade area in cars.

11. None of these possibilities, even if fully achieved, would constitute a permanent and satisfactory solution to all the problems to which I refer in the first two paragraphs of this paper. The proposal that EFTA should be widened by bringing EEC in as an additional member has been widely canvassed. It can be argued that, apart from the risk that this might land us with permanent "second class citizenship" in Europe, it might not be in our immediate interest, since it could expose us to pressure from the EEC in a forum where we should be without the support of the non-European Governments who share our interest in a more outward looking form of European co-operation. On the other hand this, or the variant suggested in paragraph 10(i), could in the short-term preserve our interest in trading with the EEC and might lay the foundation for the single common market which was the ultimate objective.

12. As regards (ii) this is already the firm objective of ourselves and our EFTA partners and is also the professed objective of the EEC. It is plainly right to continue to put the main emphasis on this if only because the trade benefits from an even moderately successful Kennedy Round are likely to be substantially greater than those which we could expect from any purely European tariff arrangement. At Vienna I
should of course wish to draw special attention to the importance of the 
Kennedy Round in reducing intra-European barriers. Because of the 
risk that we should be thought by the Americans and others to be losing 
interest in the success of the Kennedy Round it would not at this stage 
be advisable to say much publicly about (iii); this is something to be 
pursued once the Kennedy Round is over. Similarly, with (iv), since 
arrangements of this kind would not be compatible with the GATT and 
would be likely to encounter strong objections from the U.S.A. It can 
be argued that, if it were thought that we were seriously contemplating 
such arrangements now the effect on the Kennedy Round might be 
disastrous; it would not therefore be wise at this stage to do more than 
hint privately to our EFTA partners that after the Kennedy Round it 
might be worth exploring these ideas further. On the other hand, if 
the climate was right, we might well suggest at Vienna putting in hand 
some preliminary consideration between EEC and EFTA while the 
Kennedy Round is still going on, in preparation for action - if that is 
agreed - after the Kennedy Round is completed. Against that possi­
bility I should like an examination made of the scope for arrangements 
of this kind; motor cars, chemicals and machine tools seem the most 
likely possibilities, but there may be others. The balance of advantage 
for the industries concerned would of course need very careful and detailed 
consideration and there could be no question of launching specific propo­
sals at Vienna.

13. Other possibilities for EFTA/EEC links which we might discuss 
at Vienna are:

(a) The extension on a wider European basis of the "functional 
collaboration" arrangements on specific projects in the fields 
of advanced technology which we are now starting to develop 
with the French, Germans and Italians. Sweden and 
Switzerland in particular may in any case be eyeing our recent 
moves in this field with interest. Again, it would be necessary 
to have careful prior examination of the fields in which such 
collaboration would be profitable and practicable. It would be 
essential to avoid "white elephants" and to bring into any 
particular project only countries who had something useful to 
contribute.

(b) European co-operation, or even moves by one or more countries, 
to remove the differences in Europe of basic regulations or codes 
of practice. Some items in this field are important for closer 
economic and technical relationships; e.g., patents, industrial 
standards, and food regulations, but the United Kingdom's 
efforts in W.E.U. for co-operation have had no success. It 
might, however, be worth while pursuing them at the 
ministerial level in a joint EEC/EFTA context, and I think 
we should provide for this possibility at the Vienna Meeting.

(c) On metric systems and decimal coinage the United Kingdom is 
the only one out of step. It is for consideration whether we 
could make a contribution in these fields by indicating both to 
the EFTA meeting and publicly that we are actively reviewing 
the possibility of moving to the metric system and to a decimal 
coinage, and shall soon be bringing these matters to the point 
of decision. We might even be able to announce positive 
Governmental decisions to move. There is no doubt that this 
would arouse much interest in Europe.
14. At the Vienna Meeting I might, therefore, ask my colleagues to agree to an EFTA initiative. This might take the form of a suggestion by EFTA Heads of Government in the communique after the Vienna Meeting that there should be a meeting of senior Ministers of member Governments of EEC and EFTA to discuss the possibilities of establishing a Joint Consultative Council of EFTA and EEC with the functions suggested in paragraph 8 above, and of an exchange of ambassadors between the EEC and EFTA. The communique could go on to set out as agenda for the new Council proposals for reducing trade barriers in Europe, on the lines discussed in paragraphs 10 to 12, and the other possibilities of closer European collaboration outlined in paragraph 13. I think we should also arrange for a meeting of appropriate Delegations from EFTA countries (the Permanent Representatives would need reinforcement for this purpose) to work out further stages of this initiative, in so far as this needs to be done in the light of the decisions and announcements to be made at the Vienna Meeting. The agenda for the EFTA meeting already includes the questions of European integration and the strengthening of EFTA. The Secretary-General has been preparing a directive from Ministers to the Council at official level to prepare a report covering a broad reappraisal of how EFTA can be developed and strengthened. I am sure that an exchange of views on the basis of my proposals would provide what is needed to produce the right sense of occasion for this meeting and that we should therefore take steps to ensure that the directive prepared by the Secretary-General is adapted to put more emphasis on the theme of reducing barriers within Europe, and the strengthening of EFTA presented rather as part of this broader approach.

15. If these ideas are acceptable to my colleagues I would propose to put them informally and confidentially in advance to my EFTA colleagues for their comments. We should also need to give some prior notice, at the appropriate stage, to other Commonwealth Governments and to the United States Government. Meanwhile, in view of the urgency, officials should be instructed to prepare a brief for the Vienna Meeting on the basis of them.

H. W.

10, Downing Street, S.W.1.

11th May, 1965
SLUM CLEARANCE: COMPENSATION FOR OWNER-OCCUPIERS

MEMORANDUM BY THE MINISTER OF OVERSEAS DEVELOPMENT

During the election we made specific pledges to the effect that adequate compensation would be provided for owner-occupiers displaced by clearance schemes and that in particular we would extend local authorities' power to pay supplementary compensation in certain cases beyond the end of this year when it is due to lapse. The Prime Minister spelt out these pledges at his Press conference in Liverpool during the campaign and a number of us are personally very deeply committed by them.

2. The Minister of Housing and Local Government has tried to deal with this matter through a Private Member's Bill but has not been able to find a Member willing to introduce it. At present there is no Government legislation in contemplation and questions are being asked during the municipal campaign as to what has happened to our pledge.

3. The urgency of this matter arises from the fact that the power to pay supplementary compensation lapses on 13th December this year. If the legislation is not amended before then it clearly cannot be amended at all. This is not a case, therefore, where we can postpone the fulfilment of a pledge. We must act soon or admit that the pledge has been violated.

4. The cases to be covered are those of owner-occupiers who were compelled by the post-war housing shortage to buy unfit houses at inflated prices. Because slum clearance was in abeyance up to 1955 they bought in the expectation that the houses would have an indefinite life and the price they paid reflected this. When slum clearance was resumed in 1955, steps were taken to meet their difficulties under the Housing Act 1957. Schedule II of the Act provides that owner-occupiers who bought their houses between 1939 and 1955 will be entitled to compensation up to full market value provided the houses are acquired for clearance before 13th December, 1965. In certain
areas where there are a large number of such houses acquisition is far from complete and, unless the period is extended, the owners will only get site value.

5. I would suggest to my colleagues that amending legislation need take very little Parliamentary time. All we need is a one-clause Bill substituting the year 1970 for 1965 in Schedule II of the 1957 Act. This would give local authorities another five years in which to acquire the qualifying properties.

6. The Minister of Housing has informed me that he is doing the best he can without legislation by encouraging local authorities to buy the houses before the present Act expires. This action, welcome as it is, comes up against two main difficulties. The first is that local authorities could not possibly value and acquire all the houses involved in the time available. In my own constituency, for example, it is taking up to 12 months to complete the purchase in advance of properties being acquired outside the current two-year programme of slum clearance. With 10,000 houses to be cleared, the programme extends to 1982 and the local authority estimates that the minimum period needed to acquire all the properties would be five years. Even this would involve drastically condensing the 17-year programme and would cause considerable difficulties. It would be quite impossible for the Council to acquire all the qualifying properties before the end of this year.

7. The second difficulty would arise from the cost of acquiring thousands of houses within the next few months which in the case of my own local authority would amount to a very large sum.

8. For all these reasons I would urge that time be found for a one-clause Bill extending the period for five years.

B. A. C.

Ministry of Overseas Development, S.W.1, 12th May, 1965.
TELEVISING PARLIAMENTARY PROCEEDINGS

MEMORANDUM BY THE LORD PRESIDENT OF THE COUNCIL

Mr. Iremonger, M.P., has given notice that he will move on 28th May a Motion to "call attention to the need to consider the desirability of televising the proceedings of Parliament". His Motion is first order and it is necessary to consider what attitude the Government should adopt towards it. Proposals to televise Parliamentary proceedings raise a number of questions—can it be done, should it be done, and, if the answers to these questions are affirmative, in what form should it be done, should programmes cover both Houses of Parliament and should facilities be provided for independent television as well as the British Broadcasting Corporation (B.B.C.)?

Technical possibilities

2. The B.B.C., who undertook a reconnaissance in 1960, believe that it is technically possible to televise the proceedings of the House of Commons. At present it would be necessary to install four cameras, one in the corner of the Official Box behind the Speaker's chair, one in a corresponding position on the Opposition side, one behind the Serjeant-at-arms' chair, and one at the back of the Strangers' Gallery. It would also be necessary considerably to increase the strength of lighting in the Chamber. The B.B.C. have recently sent me a memorandum on the subject, however, in which they forecast that in 12 to 18 months' time they will have in use highly sensitive miniature cameras which would be easy to conceal, could be operated by remote control and would need only a slight reinforcement of the present lighting.

3. A full Parliamentary service enabling viewers to tune into House of Commons proceedings at any time (as Aneurin Bevan suggested in 1959) could be provided only by using the fourth channel, and must presumably be ruled out on this ground even if there were no others. But it would be possible to transmit our debates as part of the ordinary B.B.C. services on special occasions, or to transmit an edited review of the day's proceedings on the existing services late at night.
4. It does not follow that any facility given to the B.B.C. would have to be given to independent television, but if it were this would presumably double the number of cameras in the Chamber and the amount of accommodation required elsewhere in the Palace of Westminster, e.g., as interview rooms.

Cost

5. The capital cost of using the fourth channel wholly for a Parliamentary service would be about £35 million. The transmission of an edited version of the proceedings within an existing programme was estimated in 1960 to cost about £250,000 in capital and £60,000 in annual expenditure. I have no information about the effect on the cost of introducing the more sensitive cameras mentioned above.

Is the televising of Parliamentary proceedings desirable in principle?

6. In considering whether the televising of Parliamentary proceedings is desirable, we need to examine its effect both on the proceedings themselves and on the relationship between Parliament and the public. It is said that the introduction of live broadcasting of proceedings would tend to alter the character of our debates. Members would address set speeches to a national or a constituency audience instead of following the course of the debate. There would be unseemly jockeying for peak hours, and Members fortunate enough to catch the Speaker’s eye during those periods would speak at inordinate length. If this occurred the reputation of Parliament with the public might well be damaged. Experience in other countries suggests that there is some substance in these fears. For example, in 1959 the Bundestag of the Federal German Republic discontinued live television transmission of selected debates on precisely these grounds, and similar effects have been observed in Australia and New Zealand, where debates are transmitted live on sound radio.

7. The advocates of televising proceedings urge, on the other hand, that if the public could see the House of Commons in action our activities would seem less remote, and that on major and controversial topics it is better that the public should be able to listen to the statements of policy made by the leading spokesmen of the parties in Parliament than to get them either secondhand in interviews or studio discussions or through party political broadcasts. They suggest that most of the objections to live transmissions would be avoided if an edited record were transmitted at the end of the day, since Members would not then be addressing a mass audience, would derive no advantage from speaking at peak hours, and would have a better chance of inclusion in the summary if they could make telling contributions briefly. Clearly the task of condensing a debate into, say, an hour of recorded extracts would be difficult and the choice of extracts might in itself give rise to considerable political controversy. The B.B.C. believe that they could do it fairly and point out that the technique is similar to that employed in summarising party conferences; but there might be a risk that what
would emerge most clearly would be the dramatic incident rather than the exchange of argument. An edited report would, however, make it possible to give some impression of Question time, since the commentator could interpolate the Question, and it would not be incompatible with an occasional showing of a major debate, such as that on the Budget, live in the B.B.C.'s ordinary programme.

Should further consideration of the problem be undertaken?

8. The B.B.C. have suggested that they should be permitted to experiment with sound recordings, using the existing public address system, as a means of demonstrating their ability to edit recordings satisfactorily, and that they should subsequently experiment with television so as to give Members an opportunity of considering whether the transmission of proceedings, either live or in an edited version, might be expected to enhance the prestige of Parliament and the public understanding of political affairs. If the B.B.C. were allowed to experiment the question would arise whether similar facilities should be given to independent television. Mr. Iremonger, or other speakers in the debate, may suggest that a Select Committee should be appointed to go into the questions both of principle and of feasibility, at least in relation to edited programmes.

9. Previous Administrations have taken the line that the matter was one for the House of Commons and that there was any general wish among Members to have the proceedings televised. The Prime Minister said on 10th November, 1964 (Hansard, Col. 828-829)—

“I have the impression that in the previous Parliament there was not anything like a majority of Members in favour of the televising of our proceedings.

We have now many new Members and we should of course move in accordance with the wishes of Parliament. This question could be discussed through the usual channels and I know that, in addition, my right hon. friend the Leader of the House would be glad to receive the views of individual hon. Members. So long as there is no indication that the majority of the House want our proceedings televised, I do not think there is any point in conducting experiments.”

It may be said, however, that it is difficult for Members to form even a provisional opinion unless they can see what the possibilities, and particularly the possibility of edited recordings, are. In this situation we can either—

(a) adhere to the line taken hitherto, i.e., no action without a clear indication that the House wants it, but with the implication that if the Motion received strong support we would do something about it;

(b) undertake to consult the Speaker and the Lord Chancellor with a view to the B.B.C. being given facilities to take sound recordings and to produce programmes of edited excerpts, not for transmission to the public but for demonstration to Members, leaving ourselves free to consider thereafter whether to allow the B.B.C. to go on
to an experiment with closed circuit television. We should at the same time make fuller enquiries than were made in 1960 about relevant experience abroad;

(c) agree to the appointment of a Select Committee which could itself arrange for whatever experiments it thought necessary to enable it to reach conclusions.

Conclusion

10. I doubt myself whether there is any strong demand either inside or outside Parliament for a visual record, in whatever form, of our proceedings. I am inclined therefore to recommend that we adopt initially the approach at (a) above. If we found that a substantial number of Members were in favour at least of exploring the question further, then I think it would be appropriate to propose the appointment of a Select Committee.

H. B.

Privy Council Office, S.W.1,
17th May, 1965.
CABINET

SALARIES OF THE HIGHER JUDICIARY

MEMORANDUM BY THE FIRST SECRETARY OF STATE AND SECRETARY OF STATE FOR ECONOMIC AFFAIRS

On 15th December, 1964 (C.C. (65) 15th Conclusions, Minute 6), the Cabinet agreed that legislation should be introduced in June or July 1965 in order to increase the salaries of the higher judiciary with effect from September. There was to be no public announcement to this effect in the immediate future, in view of its possible impact on the incomes policy, but it was agreed that the judges and the previous Lord Chancellor (Lord Dilhorne) should be informed of the Government's proposal in confidence. The quantum of the increase was left for further discussion.

2. The Economic Development Sub-Committee on Prices and Incomes considered the amount of the increase at their meeting on 12th May (E.D. (P.I.) (65) 11th Meeting). The discussion showed a fundamental difference of opinion between the Lord Chancellor, supported by the Home Secretary and the Minister of State, Board of Trade, and the Chief Secretary to the Treasury, supported by the Department of Economic Affairs and by the Secretary of State for Scotland.

3. It is convenient to consider this matter in relation to the salaries of High Court judges in England and Wales, though the proposals cover a range of judicial salaries which would move in parallel with High Court judges (see Annex). At present High Court judges are paid £8,000. Their salary was raised to this level from £5,000 (where it had stood since 1832) in 1954, with the declared intention that the new rates should stand "for a generation". It is generally agreed that there was thus some measure of looking forward in the rates fixed in 1954, and it has been suggested by officials of the Departments concerned that the new rates were "about right" in 1958.
Lord Chancellor's proposal

4. In his memorandum to the Sub-Committee (E.D. (P.I.) (65) 49) the Lord Chancellor stated that he had assumed that his colleagues would agree in all the circumstances that an increase in the salaries of High Court judges of the order of 30 to 40 per cent could be manifestly justified. An increase of 40 per cent would give a High Court judge a salary of £11,200, and an increase of 30 per cent a salary of £10,400; other salaries in the field would be increased pro rata. He stressed the immense importance of maintaining the unchallengeable independence of the judiciary (which was one of the chief considerations in fixing judicial remuneration in 1832 and again in 1954), and of avoiding anything which might look like down-grading the judges' status, which would alienate judicial opinion. The Lord Chancellor said that without an increase of the order he proposed he would be in increasing danger of failing to attract the best men to the Bench. He pointed out that comparisons with movements of other incomes at comparable levels since 1954 or 1958 would justify much higher salaries than he was proposing. His 30 per cent would represent a compound annual rate of increase of 2\(\frac{1}{2}\) per cent since 1954, or 3\(\frac{1}{4}\) per cent since 1958.

The Chief Secretary's proposal

5. In his memorandum (E.D. (P.I.) (65) 50) the Chief Secretary made clear his view that the time had come to consider judges' salaries not in relation to what had been thought appropriate in the past but in relation to the place of judges in the modern world, and in particular in relation to the salaries of senior Ministers and Permanent Secretaries. He proposed that the salaries of High Court judges should be increased by 12\(\frac{3}{4}\) per cent to £9,000. He pointed out that the considerations which led to the salaries of judges (and of senior Ministers) being fixed in 1832 at what was then the very high level of £5,000 no longer prevailed to-day. He considered that £9,000 was as much as should be given to judges at a time when senior Ministers are paid £8,500 and Permanent Secretaries £8,200 (the Lord Chancellor reminded the Sub-Committee that the Lawrence Committee recommended £12,000 for senior Ministers and that it was decided to implement only half this recommendation, for reasons which he suggested did not apply to the judges. The Chief Secretary said that, given the nature of the functions and responsibilities of judges, status is a matter of much more than remuneration, and he questioned whether the level of salaries which he proposed would fail to attract men to the bench. He reminded the Sub-Committee of the generous pensions arrangements which applied to judges (50 per cent of salary after 15 years' service). His 12\(\frac{3}{4}\) per cent would represent a compound annual rate of increase of just over 1 per cent since 1954, or 1\(\frac{1}{4}\) per cent since 1958, though that is in a sense beside the point, since his proposal amounts to a revaluation of the judges.

6. One important point of detail is the relationship of the salary of the Attorney-General and that of the Lord Chief Justice. From 1954 to 1965 both were paid £10,000. The Lord Chancellor pointed out that the Chief Secretary's proposal would result in the Attorney-
General’s salary being increased to £13,000 (plus his parliamentary salary of £1,250), while the Lord Chief Justice would be denigrated with a salary of £11,500. The Chief Secretary recalled that until 1954 the Lord Chief Justice was paid £2,000 less than the Attorney-General, and that his proposals would revert to that relationship, though the difference would only be £1,500.

Views of other Ministers

7. The Secretary of State for Scotland supported the Chief Secretary to the Treasury. He did not think that the salaries proposed for the Scottish judges would make it more difficult to attract men to the bench in Scotland.

8. The Minister of State, Board of Trade, thought that, unless judges received increases of the order proposed by the Lord Chancellor, it might become more difficult to fill quasi-judicial appointments. He gave as an example the chairmanship of the Monopolies Commission: he thought it unlikely that the Board of Trade would be able to persuade the man they wanted to accept the post, unless he could be offered the same salary as a High Court judge and that salary was at the sort of level proposed by the Lord Chancellor. He pointed out that the Chairman of the National Prices and Incomes Board was being paid £15,000. My own view is that one cannot compare the terms which one has to pay to attract a man out of business to an appointment of that nature with the terms appropriate for judges, with their security of tenure, attractive pensions and recognised place in the scheme of things.

Recommendations

9. The Sub-Committee were unable to agree upon a recommendation to the Cabinet on this question. In further discussion, however, the Lord Chancellor, the Chief Secretary to the Treasury and I have agreed upon the following proposal. We recommend the Cabinet to agree that the salaries of High Court judges should be increased to £10,000 (and other salaries in the field pro rata) from 5th April, 1966. This would represent an increase of 25 per cent, or a compound annual rate of just under 3 per cent since 1958. We recommend that the dates of an announcement of these increases and of the introduction (this session) of the necessary legislation should be decided by agreement between the Lord Chancellor, the Lord President of the Council and myself.

Conclusion

10. The posts concerned, the existing salaries and the various proposals put forward are set out in the annex to this memorandum. It is agreed that the salary of the President of the Probate, Divorce and Admiralty Division should in future be the same as that for the Master of the Rolls (instead of being the same as that for a High Court judge), because he has a larger burden of administrative duties in addition to his judicial work than High Court judges have. It is also agreed that the legislation which will authorise whatever increase
is decided upon by the Cabinet should take power to fix the salaries of the higher judiciary by Statutory Order in future. The Cabinet is asked to approve new rates of salary of £10,000 for High Court judges (and other rates as in the last column, in the table annexed) to come into effect from 5th April, 1966, dates of announcement and introduction of legislation to be agreed between the Lord Chancellor, the Lord President of the Council and myself.

G. B.

Department of Economic Affairs,
Storey’s Gate, S.W.1,
18th May, 1965.
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(*) It is agreed that in future the President of the Probate, Divorce and Admiralty Division, who has hitherto been paid at the same salary as a High Court Judge, should in future receive the same salary as the Master of the Rolls.
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G. B.

Department of Economic Affairs,
Storey's Gate, S.W.1,
18th May, 1965.
## Salaries of Higher Judiciary

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<td>9,750</td>
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<tr>
<td>Senators</td>
<td>6,600</td>
<td>8,580</td>
<td>7,425</td>
<td>8,250</td>
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<tr>
<td><strong>Northern Ireland</strong></td>
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<td>Lord Chief Justice</td>
<td>7,500</td>
<td>9,750</td>
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<td>Justices of Appeal</td>
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<td>8,450</td>
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<td>8,125</td>
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<tr>
<td>High Court Judges</td>
<td></td>
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</table>

(*) It is agreed that in future the President of the Probate, Divorce and Admiralty Division, who has hitherto been paid at the same salary as a High Court Judge, should in future receive the same salary as the Master of the Rolls.
CABINET

RACE RELATIONS BILL - CONCILIATION MACHINERY

Memorandum by the Secretary of State for the
Home Department

Clause 1 of the Race Relations Bill as it stands makes it a
criminal offence, punishable on summary conviction by a fine, to
practice discrimination on grounds of colour, race or ethnic or
national origins in any of the places of public resort described in the
section. This provision has been attacked by the Opposition, and
widely in the press, on the grounds that it introduces criminal sanctions
into a field more appropriate to conciliation. There is also a
considerable body of opinion among Government supporters and the
organisations representing immigrant communities that some form of
conciliation machinery should be introduced as a preliminary to any
proceedings in the courts.

In the debate on Second Reading on 3rd May I undertook that we
should listen closely to the arguments advanced in favour of a
conciliation process and that, if we considered it practicable and in the
public interest to do so, we should amend the Bill at Committee Stage
to give such effect as we felt able to the wishes of the House. The
subsequent debate served to confirm the general feeling in favour of
conciliation machinery, with a preference that any proceedings that
might follow failure of conciliation should be of a civil rather than a
criminal nature.

The draft amendments annexed to this memorandum provide for
the establishment of conciliation machinery and for enforcement by civil
proceedings when conciliation has failed.

The proposed new clause A provides for the constitution of a
Race Relations Board, which will be required to appoint local
conciliation committees. It will be the duty of the committees to
receive and enquire into individual complaints of discrimination in
public places within the ambit of Clause 1 of the Bill, and to attempt
to secure a settlement of the differences between parties and, where
appropriate, to obtain assurances against any repetition of discrimina­
tory acts. The committees will work informally and will not be armed
with powers to summon witnesses. In any case in which conciliation
fails the committee will be required to make a report to the Board;
and if in such a case the Board is satisfied that a course of
discriminatory conduct has taken place and that such conduct is likely
to continue it will be able to take proceedings for enforcement.
Court proceedings are dealt with in the proposed new Clause B. Proceedings will be taken in the county court or High Court, which will be empowered to grant an injunction restraining the defendant, on pain of committal for contempt of court, from any further acts of discrimination either against specified individuals or against specified classes of persons. I would expect very few cases in practice to reach the courts.

Clause A has been drafted so as to leave the Board with considerable latitude in deciding the number, distribution and composition of conciliation committees. If, as I propose, the Board is itself to be responsible for enforcement it ought not in any case to be directly responsible for conciliation. This means that there must be conciliation committees covering the whole country. While conciliation by people familiar with the local situation will be desirable wherever possible, it may be found best in some parts of the country to have a single committee serving a comparatively large area in which few cases are likely to arise. The separation of the processes of conciliation and enforcement will also be effected by the provision in clause B that any statement made during the course of conciliation shall not be admitted in court proceedings except with the consent of the party by whom it was made.

It is apparent from the debate on the Second Reading, and from amendments which have already been tabled, that there will be strong pressure during the Committee stage for the Bill to be extended to deal with discrimination in such wider fields as employment and housing. It will be urged that these are the fields where the worst abuses occur and where attempts at conciliation by local committees of the kind we propose to set up would be particularly effective. I assume however that it will still be the wish of my colleagues that this pressure should be resisted.

It is only after the most careful consideration and consultation with my colleagues principally concerned that I have decided in favour of enforcement by civil rather than criminal proceedings. An arrangement whereby criminal proceedings would be taken in the magistrates courts, with offences punishable by fines as in the present clause 1, has some attraction. But conciliation and criminal proceedings are difficult to reconcile in principle and there are serious procedural difficulties in attempting to combine them. One of the advantages of proceeding by civil action will be to free the police from all responsibilities in the matter.

I understand that the Secretary of State for Scotland supports these proposals and would like the scope of the proposed Race Relations Board to extend to Scotland. It would accord better with the Scottish system of law enforcement for proceedings in Scotland to be taken by the Lord Advocate instead of by the Board, and the draft new clause C provides for this.

I seek the approval of my colleagues to the tabling of the Committee stage of the Race Relations Bill of amendments giving effect to these proposals.

F. S.

Home Office, S. W. 1.

18th May, 1965
CONFIDENTIAL

Race Relations Bill

DRAFT AMENDMENTS

Clause 1, page 1, line 5, leave out from beginning to "being" in line 6 and insert "it shall be unlawful for any person".

Clause 1, page 1, line 7, leave out "he discriminates" and insert "to practise discrimination".

Clause 1, page 1, line 9, leave out "any person" and insert "persons".

Clause 1, page 2, line 7, leave out subsection (4) and insert—

(4) The provisions of this section may be enforced by civil proceedings under the following provisions of this Act and not otherwise: but nothing in this subsection affects the enforcement by civil or criminal proceedings of any duty or obligation to which a person is subject otherwise than by virtue of this section.

To move the following Clauses:

A.—(1) For the purposes of securing compliance with the provisions of section 1 of this Act and the resolution of difficulties arising out of those provisions, there shall be constituted a board to be known as the Race Relations Board, consisting of three members of whom one, being a barrister, [advocate] or solicitor, shall be appointed by the Lord Chancellor and the others by the Secretary of State.

(2) The Board shall appoint committees, to be known as local conciliation committees, for such areas as the Board consider necessary for the purposes of this section; and it shall be the duty of every such committee—

(a) to receive and consider any complaint of discrimination in contravention of section 1 of this Act which may be made to them (or made to the Board and referred by the Board to them), being a complaint made by or with the authority of the person against whom the discrimination is alleged to have been practised;

(b) to make such inquiries as they think necessary with respect to the facts alleged in any such complaint; and

(c) where appropriate, to use their best endeavours by communication with the parties concerned or otherwise to secure a settlement of any difference between them and a satisfactory assurance against further discrimination contrary to the said section 1 by the party against whom the complaint is made.
(2)

(3) In any case where the local conciliation committee are unable to secure such a settlement, or such a settlement and assurance, as aforesaid, or it appears to the committee that any such assurance is not being complied with, the committee shall make a report to that effect to the Race Relations Board; and if it appears to the Board, in consequence of such reports—

(a) that there has taken place in any place of public resort to which the said section 1 applies a course of conduct in contravention of that section; and

(b) that that conduct is likely to continue,

the Board may take proceedings under section B of this Act or, if that place is in Scotland, report the matter to the Lord Advocate.

(4) The provisions of the Schedule to this Act shall have effect with respect to the tenure of office and remuneration of members of the Board, the appointment and remuneration of their officers and servants, the payment of travelling and other allowances to members of local conciliation committees, and other ancillary matters; and any expenditure incurred under those provisions shall be defrayed out of moneys provided by Parliament.

(5) The local conciliation committees shall make to the Board such periodical reports with respect to the exercise of their functions as the Board may require, and the Board, shall, at such times as the Secretary of State may direct, make annual reports to the Secretary of State with respect to the exercise of their functions; and the Secretary of State shall lay before Parliament any report made to him under this subsection.

B.—(1) Civil proceedings for the enforcement of section 1 of this Act by injunction or other appropriate relief may be brought in England and Wales by the Race Relations Board; and notwithstanding anything to the contrary in any enactment or rule of law relating to the jurisdiction of county courts, such proceedings may be brought in a county court.

(2) If in proceedings under this section the court is satisfied—

(a) that the defendant has (by himself or by his servants or agents) engaged in connection with a place of public resort to which section 1 of this Act applies in a course of conduct in contravention of that section; and

(b) that he is likely, unless restrained by order of the court, to persist in such conduct,

the court may grant such injunction as appears to the court to be proper in all the circumstances, and in particular an injunction to restrain the defendant from committing or causing or permitting acts of discrimination in contravention of the said section 1 of such kinds, against such persons or against persons of such descriptions, as may be specified in the order of the court.
(3) In proceedings under this section, evidence of any communication made to the Race Relations Board, a local conciliation committee, or any officer of the Board or of such a committee, for the purpose of or in connection with the exercise of their functions under section A of this Act shall not be admitted except with the consent of the party by whom it was made.

C.—(1) Civil proceedings for the enforcement of section 1 of this Act in Scotland may be brought by the Lord Advocate in the Court of Session, or in the sheriff court.

(2) Proceedings under this section shall be by petition, and if in any such proceedings the court is satisfied—

(a) that the respondent has (by himself or by his servants or agents) engaged in connection with a place of public resort to which section 1 of this Act applies in a course of conduct in contravention of that section; and

(b) that he is likely, unless prohibited by order of the court, to persist in such conduct,

the court may make an order prohibiting him from committing or causing or permitting acts of discrimination in contravention of the said section 1 of such kinds, against such persons or against persons of such description, as may be specified in the order.

(3) An appeal shall lie against—

(a) an order made under the last preceding subsection;

(b) an order imposing a fine on the respondent, or committing him to prison, in respect of a breach of an order made as aforesaid;

as if the order appealed against were a final interlocutor in an ordinary action; and where any appeal under this subsection is decided by the Court of Session a further appeal shall lie to the House of Lords with the leave of the Court or of that House.

(4) Subsection (3) of the last preceding section shall apply in the case of proceedings under this section as it applies in the case of proceedings under that section.
ANCILLARY PROVISIONS AS TO RACE RELATIONS BOARD AND LOCAL CONCILIATION COMMITTEES

1. The Secretary of State may appoint one member of the Race Relations Board as chairman.

2. A person appointed to be a member of the Board shall hold and vacate office under the terms of the instrument by which he is appointed, but may at any time resign his office; and a member who ceases to hold office shall be eligible for re-appointment.

3. The Board shall be a body corporate with perpetual succession and a common seal.

4. The validity of any proceeding of the Board shall not be affected by any vacancy among the members or by any defect in the appointment of a member.

5. The Board may appoint such officers and servants as they may, after consultation with the Secretary of State and with the consent of the Treasury, determine.

6. There shall be paid—
   (a) to the members of the Board such remuneration and allowances as may be determined by the Secretary of State with the consent of the Treasury;
   (b) to the officers and servants of the Board such remuneration and allowances as the Board may, after consultation with the Secretary of State and with the consent of the Treasury, determine.

7. The Board may pay—
   (a) to members of local conciliation committees;
   (b) to persons assisting in or concerned with the carrying out of the functions of any such committee, travelling or other allowances in accordance any such scales as may be approved by the Secretary of State with the consent of the Treasury.
CONFIDENTIAL

Race Relations Bill

DRAFT AMENDMENTS

CXIV—A (3)

18th May, 1965

172—3  037284  43/1
CABINET

COMPUTER FOR THE SCOTTISH DEPARTMENTS

MEMORANDUM BY THE FIRST SECRETARY OF STATE AND SECRETARY OF STATE FOR ECONOMIC AFFAIRS

At the meeting of the Cabinet on 6th May (C.C. (65) 28th Conclusions, Minute 6), I was invited, in consultation with the Secretary of State for Scotland, the Minister of Technology and other Ministers concerned, to arrange for the procurement of the computers for the Scottish Departments and the Royal Aircraft Establishment, Farnborough, on the lines indicated by the Prime Minister.

2. In view of the considerable delay already suffered and the public commitment by the Scottish Departments to have the Scottish computer in operation by 1st April, 1966, the Prime Minister emphasised that any revised offer made by a United Kingdom-owned company should not only be reasonable in cost in comparison with the offer already made by International Business Machines Limited (I.B.M.), but also satisfy the Government's requirements as regards date of operation.

3. I attach a note by officials evaluating the revised offers which have been made by International Computers and Tabulators Limited (I.C.T.), and English Electric Leo (E.E.L.) for the Scottish computer. The Ministry of Technology were unfortunately unable to agree with the recommendation of the other Departments involved. I.C.T. are clearly not able to meet our requirements. E.E.L. have made two revised offers. The cheaper of these will cost about 10 per cent more than the original I.B.M. offer—both in terms of initial capital cost and of total cost over an assumed operational period of seven years.

4. It seems clear, moreover, that, at best, E.E.L. would not be operational before 1st September, 1966; and this allows no margin for the almost inevitable teething troubles. I.B.M., on the other hand, have undertaken to have their equipment in operation by 1st April, 1966, and they have made such an ample allowance for contingencies that it seems clear we can rely on their undertaking.

5. I ask my colleagues to agree, therefore, that the I.B.M. tender for the Scottish computer should be accepted forthwith.

G. B.

Department of Economic Affairs, S.W.1.
27th May, 1965.
COMPUTER FOR SCOTTISH DEPARTMENTS

NOTE BY OFFICIALS

At their meeting on 6th May (C.C. (65) 28th Conclusions, Minute 6), the Cabinet had before them memoranda about the procurement of computers for Government Departments.

The most pressing case for consideration was the computer for the Scottish Department which must be in operation by 1st April, 1966, if public undertakings to hospitals and educational authorities (on the basis of which they are working) are to be fulfilled.

Summing up the discussion, the Prime Minister invited the First Secretary of State to arrange for the procurement of the computer for the Scottish Departments on the following basis. United Kingdom companies should be given a second opportunity to tender, on the basis of a realistic target price, and if one of them proved able to make a satisfactory offer and to meet other requirements as regards date of operation, etc., then it might be awarded the contract. Otherwise it would be necessary to accept the I.B.M. tender.

Two United Kingdom-owned companies, I.C.T. and E.E.L., were invited to submit fresh tenders. They were asked whether they would increase the amount of equipment or services which they would be prepared to provide for the original target price of £400,000 or whether they would reduce their price for the equipment and services previously offered for £400,000.

I.C.T. made marginal alterations in price and offered some increase in capacity but made it clear that the installation would not be in working order before 1st June, 1966, and probably not until some time after that date. This company therefore clearly cannot meet the requirements laid down.

E.E.L. made two fresh offers. One for approximately the original target price of £400,000 but with extra equipment; the other for a reduction of £34,000 in the cost of equipment originally offered. Both these new offers are more costly than I.B.M.'s original offer. The additional cost of the lower of them is shown in the Annex.

As regards the date of operation, although the new E.E.L. offers can provide equipment by 1st April, 1966, two reasons have been advanced why it cannot be operative by that date. First, designs for the air conditioning plant, etc., have been commissioned (and completed) to cope with I.B.M. or I.C.T. machines. These designs would now need to be altered to meet the greater requirements of the E.E.L. equipment. Ministry of Public Building and Works have estimated that, at best, this would delay installation and operation of E.E.L. by five months. Secondly in the view of the Scottish Office the number of analysts and programmers that E.E.L. can provide is inadequate to enable the installation to be in operation on time.

CONFIDENTIAL
On this basis the E.E.L. equipment could be in operation by 1st September, 1966, though the Ministry of Public Building and Works estimate leaves no safety margin for possible hitches. On the other hand, I.B.M. have undertaken to have their equipment in operation by 1st April, 1966, and their timetable includes a useful margin of about three months for unforeseen contingencies.

The Ministry of Technology considered that the additional cost of about 10 per cent and the delay of five months which the E.E.L. tender would involve should be accepted as within the margin of preference to be accorded to United Kingdom-owned manufacturers in the procurement of computers for Government use. They also believed that, if exceptional measures were taken, it should be possible to reduce the time required to get the E.E.L. equipment installed and into operation.

The Treasury, the Department of Economic Affairs, the Board of Trade the Scottish Office and the Stationery Office, on the other hand, were satisfied that E.E.L. would not be able to provide a working installation by 1st April, 1966, and recommend that the Stationery Office should be authorised to purchase forthwith for the Scottish Departments the I.B.M. machine, which would be available on time at a substantially lower cost; and, in the view of the Scottish Office, would also offer operational advantages.

ANNEX

COST COMPARISON BETWEEN E.E.L. AND I.B.M. INSTALLATIONS FOR SCOTTISH DEPARTMENTS

<table>
<thead>
<tr>
<th>£000</th>
<th>E.E.L.</th>
<th>I.B.M.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capital (equipment, installation, programming)</td>
<td>1,067</td>
<td>975</td>
</tr>
<tr>
<td>Cost of delay</td>
<td>90</td>
<td>0</td>
</tr>
<tr>
<td>Running costs over seven years</td>
<td>2,249</td>
<td>2,290</td>
</tr>
<tr>
<td>Spare capacity</td>
<td>900 hours per annum</td>
<td>1,200 hours per annum</td>
</tr>
</tbody>
</table>

EXCESS COSTS OF E.E.L. OVER I.B.M. CAPITALISED OVER SEVEN YEARS

Capital ... ... ... ... ... ... ... 92,000
Estimated value of difference in spare capacity ... 90,000
Cost of delay ... ... ... ... 90,000
Running costs ... ... ... ... 59,000

331,000

Thus the total excess cost of the E.E.L. over the I.B.M., capitalised over a period of seven years, is £331,000, or just over 10 per cent of the total cost (capitalised over the same period) of the I.B.M. installation.
COMPUTER FOR SCOTTISH DEPARTMENTS

NOTE BY OFFICIALS

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CONFIDENTIAL
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The Ministry of Technology considered that the additional cost of about 10 per cent and the delay of five months which the E.E.L. tender would involve should be accepted as within the margin of preference to be accorded to United Kingdom-owned manufacturers in the procurement of computers for Government use. They also believed that, if exceptional measures were taken, it should be possible to reduce the time required to get the E.E.L. equipment installed and into operation.

The Treasury, the Department of Economic Affairs, the Board of Trade, the Scottish Office and the Stationery Office, on the other hand, were satisfied that E.E.L. would not be able to provide a working installation by 1st April, 1966, and recommend that the Stationery Office should be authorised to purchase forthwith for the Scottish Departments the I.B.M. machine, which would be available on time at a substantially lower cost; and, in the view of the Scottish Office, would also offer operational advantages.

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<td>—</td>
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**EXCESS COSTS OF E.E.L. OVER I.B.M. CAPITALISED OVER SEVEN YEARS**

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<th></th>
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</tr>
<tr>
<td>Running costs</td>
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Thus the total excess cost of the E.E.L. over the I.B.M., capitalised over a period of seven years, is £331,000, or just over 10 per cent of the total cost (capitalised over the same period) of the I.B.M. installation.
CABINET

GOVERNMENT PROCUREMENT POLICY FOR COMPUTERS

MEMORANDUM BY THE MINISTER OF TECHNOLOGY

At their meeting on 6th May (C.C. (65) 28th Conclusions, Minute 6), the Cabinet asked me to arrange for further consideration to be given, in the light of their discussion on computers for Government Departments, to the terms in which the Government’s policy in relation to the computer industry might be publicly announced on an appropriate occasion.

2. For several reasons I consider that an early opportunity should be taken to make a public announcement defining in broad terms the Government’s decision to accord a measure of preference to British suppliers in the procurement of computers for Government use. It is not consistent with the Government’s declared objective of promoting a flourishing British computer industry that Government assistance should be given to British makers in other ways but not in the orders which the Government places for its own needs. The sooner this inconsistency is removed the better. Secondly, there are disadvantages, both for Government users and for their suppliers, in allowing too much uncertainty to persist about the practice of the Government in its procurement of computers. The United States Government have asked for clarification on this policy in the context of discussions about procurement policy in the public sector which are proceeding in O.E.C.D.; and this reflects the uncertainties which American-controlled computer manufacturers have evinced in approaches to my Department and in other ways. Thirdly, the purpose of according a measure of preference to British suppliers in the purchase of Government computers is to help them hold their own during the interval which must elapse before the other forms of Government assistance to the industry can have effect. As a measure for the short term it should be introduced quickly. It is also important that the new criteria for Government purchases of computers should apply to all new Government projects. To take an example, this would simplify the handling of the tenders for the new computer at the Royal Aircraft Establishment, Farnborough.

CONFIDENTIAL
3. Government Departments will need guidance on the criteria they should adopt in evaluating tenders for computer installations. The criteria I suggested in my earlier paper (C. (65) 66) were that a British machine should be ordered unless:

(a) no British machine can satisfy the requirement; or 
(b) the project for which the computer is required would thereby be delayed by two years or more; or 
(c) there is a disparity of 25 per cent or more between the tender prices for United Kingdom and foreign machines.

On further consideration in the light of discussion at Cabinet I think that the period of two years in (b) above might be excessive as a general rule. I propose therefore that it should be reduced to 12 months.

4. The Cabinet decided that in announcing the criteria which the Government proposes to adopt in procuring computers for their own use it would be preferable to avoid any reference to a specific period as the measure of excessive delay or a stated percentage which would render a price disparity unacceptable. I propose, therefore, that an early announcement of the Government’s policy should be made on the lines of the statement in the Annex. This is designed to explain the decision to accord British computers a degree of preference in the context of the Government’s objective of promoting a flourishing British computer industry and to indicate that this preference will be given unless this would involve unreasonable delay or excessive cost.

5. I invite my colleagues to agree that:

(a) the margin of preference to be given to British suppliers in Government purchases of computers should be in accordance with the criteria as modified in paragraph 3 above;

(b) I should announce the Government’s policy in this respect as soon as possible in a statement on the lines of the Annex.

F. C.

Ministry of Technology, S.W.1,
28th May, 1965.
ANNEX

PROCUREMENT OF COMPUTERS FOR GOVERNMENT USE

DRAFT STATEMENT

In the statement I made to the House on 1st March, 1965, I announced a series of measures which the Government were taking to assist technological advance in this country and to support our export effort by encouraging a rapid increase in the use of computers and promoting the efficiency of the British computer industry.

2. In support of these objectives, the Government have reviewed the policy to be adopted in the purchase of computers for their own use. The Government’s own needs for computers amount to about a tenth of the total demand in this country. It would certainly not be appropriate for the Government to seek to confine all their orders to British suppliers. Nor is it the purpose of the Government to establish an undue or indefinite measure of protection for the British computer industry. On the other hand, the placing of Government orders for the products of British manufacturers can promote their growth and vigour; and can do so with more immediate effect than other measures of support that have been announced in the field of research and development. This is particularly true of new products for which the number of early orders received substantially influences the unit price that must be charged to cover development costs.

3. Accordingly, the Government have decided that in evaluating the tenders received for the supply of computers to Government users a suitable British machine should if possible be selected unless to do so would entail unreasonable delay or excessive extra cost.
COMPUTER PURCHASES BY THE GOVERNMENT

Memorandum by the President of the Board of Trade

In his Memorandum C. (65) 79, the Minister of Technology proposes that in future the purchase of computers for Government Departments should be governed by criteria affording a substantial margin of preference to British manufacturers and that a statement of this policy in general terms should be made as soon as possible. I would like to draw attention to the implications of going as far as the Minister of Technology proposes (i.e. a 25 per cent price margin) in relation to:

(i) our international commercial relations and certain current negotiations;

(ii) our policy towards foreign investment in the United Kingdom; and

(iii) our location of industry policy.

Commercial relations

2. Our general policy has been governed by the conviction that as major exporters of manufactures, it is in our interest to persuade other governments to adopt the policy of allowing foreign suppliers to compete for orders being placed by public authorities. Since at the present time our total purchases from abroad, including defence purchases, only amount to some £50 million a year, the balance of advantage must still lie heavily with persuading other governments to liberalise their policies rather than in our adopting an overtly restrictive purchasing policy. We are currently pursuing this aim in the Kennedy Round negotiations on non-tariff barriers, particularly with the object of bringing pressure to bear on the United States to modify their "Buy American" rules. We are also taking part in discussions in O, E, C, D, and have stated in reply to the Secretariat questionnaire that we do not discriminate against foreign suppliers in the field of public purchasing. The United States have challenged the accuracy of our statement on the basis of our earlier announcements about computers. To modify our statement of policy at this stage must seriously weaken our bargaining position in the Kennedy Round and bilaterally with the Americans. It would inevitably throw doubt on our willingness to refrain from such discrimination in respect of other industries; indeed it would be difficult once having breached the present policy to give any assurance that computers would be the sole exception. A public announcement of a policy of discrimination on computers would therefore in my view seriously reduce our chances of securing advantages for British exporters in this part of the Kennedy Round negotiations without ensuring any appreciable advantage for our balance of payments.
3 The EFTA Convention requires us to eliminate practices of public undertakings which protect domestic production in the same way as duties, import restrictions or subsidies. It also requires us not to introduce any new practices of this kind. As there are at present no EFTA suppliers of the larger computers, we could argue that a preference for British suppliers would cause no real damage to EFTA interests. But other EFTA countries (e.g. Sweden and Switzerland) might, nevertheless, object on the grounds that such a trade might develop in the near future; they might object to the breach of the rules because they feared that the principle of preference for British suppliers would inevitably be extended into other fields where they already have a trade interest (e.g. machine tools). Public purchasing practices are already under examination in EFTA, and are amongst the matters that will come under even closer scrutiny as a result of the programme of work to which we agreed at the Vienna Ministerial meeting. While, therefore, we might seek to defend the proposed action on computers on the grounds that there is no current EFTA trade interest, we should have to be prepared to give an assurance that we have no intention of operating preferences against EFTA suppliers in cases where they have a real trade interest.

Inward Investment

4. The proposal by the Minister of Technology is intended to discriminate not merely against imports of computers, but also against computers manufactured in the United Kingdom by foreign-controlled firms such as I.B.M. or Honeywell. This has implications for our policy of attracting foreign investment here and for British interests overseas.

5. Many British manufacturers have set up plants abroad in order to compete more successfully for orders inside foreign markets. Our overseas investment of this kind is many times greater than foreign investment here. We should therefore stand to lose - and should have much more at risk than we could possibly gain - if other Governments adopted a like policy and discriminated against British and other foreign subsidiaries when placing government contracts.

6. There is the more immediate danger of seriously reducing the flow of inward investment into this country. We have been actively engaged in recent years in trying to attract foreign investment and have set up an office in New York for this purpose. Foreign firms contemplating investment here are assured that they will be treated in exactly the same way as domestic companies. Discrimination of the kind proposed against firms owned by EFTA nationals could be contrary to our EFTA obligations. If we decided deliberately to discriminate against foreign-controlled companies in the field of government orders, this would certainly have a damaging effect on future investment. Foreign firms might well fear that further measures of discrimination would follow once the principle had been accepted. The firms immediately affected would be American and the United States currently accounts for some 65 per cent of new foreign investment here. At a time when we are taking measures to restrict the outflow of capital, it would seem unwise to take action that might significantly reduce the
inflow at a time when foreign confidence is already not very strong. Firms established here might transfer their activities on future developments to the Continent and if for example I.B.M. transferred their computer production from Scotland to Switzerland, we should be in breach of our EFTA obligations if we discriminated against them.

7. There is in addition the practical difficulty which must be dealt with in any announcement of our new policy of precisely how we intend to distinguish between wholly British and foreign-controlled firms. The "Buy American" rules are essentially related to the value of imported components included in bids for government contracts not to the ownership of the company. If the imported content is over 50 per cent, the bid is treated as foreign. At present, firms like I.C.T. also import substantial quantities of components. I have been asked, together with the Minister of Technology, to consider how imports of computers can be reduced. One way would be to seek to persuade all computer manufacturers in this country to make a higher proportion of the components here, but it will obviously be more difficult to persuade firms such as I.B.M. to do this if we are to discriminate against them in respect of government orders.

Location of industry

8. Incoming foreign firms have made a very useful contribution to providing additional employment in development districts. Coming new to this country, they are "footloose" and therefore more susceptible to being steered to the development districts than established United Kingdom firms. Some well-known names are Burroughs, Caterpillar, Timex and Chemstrand. In the computer industry, both I.B.M.'s main plant and the new Honeywell factory are located in Scottish development districts. They have been given special inducements to set up manufacturing there in accordance with our general distribution of industry policy. Moreover, under the Contracts Preference scheme which dates back to the 1930's, firms in development districts are, other things being equal, given preferential treatment in relation to government contracts. If we now decide to discriminate against these American-controlled firms in Scotland, we shall be reversing this preference. I think we must certainly expect a strong reaction from the American firms concerned and from Scotland (and development districts elsewhere) if we introduce such discrimination, and quite apart from the reduced prospect of attracting new firms, we shall have reduced the likelihood of those firms already there expanding.

Conclusions

9. My view is that we will do serious damage to our economy and to the balance of payments if we embark at this time on a policy of discrimination in the field of Government purchasing beyond the protection already provided by the existing customs tariff, and beyond the principle of preferring British-produced goods when other things are reasonably equal. On the export side we have a very substantial business in selling to overseas public authorities, and we have constantly to resist their protectionist policies. At the present time, discussions are going on in EFTA to ensure that all members honour
their very special obligations in respect of this trade. In the GATT also we are discussing measures designed to remove obstacles to this trade. I would not wish to see the prospect impaired by changing our policy now.

10. I am even more concerned about the damage we could do by adopting a discriminatory policy as regards firms in the United Kingdom according to whether they are wholly British-owned or not, and in particular a policy which would in effect discriminate against the American firms whom we have encouraged to establish themselves here. We should find it very difficult to convince others that computers were a quite exceptional case and that discrimination applied to them did not signify a major change in our policy. These firms are making a notable contribution to our economy, both in import saving and in exports; they are important sources of employment in some of our development districts notably Scotland and Northern Ireland where they have introduced modern industries, and in some cases transformed the whole outlook. It would be a major blow to our policy of trying to attract such firms and particularly to the development districts, if we now embark on a policy of discriminating against them. Indeed we might put at risk the existing employment which they provide.

D. P. T. J.

Board of Trade, S. W. I.

31st May, 1965
CABINET

PRICES AND INCOMES

MEMORANDUM BY THE FIRST SECRETARY OF STATE AND
SECRETARY OF STATE FOR ECONOMIC AFFAIRS

I must draw the attention of my colleagues to the intensification of pressure on incomes and prices since I last reported on these matters three months ago (C. (65) 30).

Prices

2. In April 1965 the retail price index for all items was 5·6 per cent higher than a year earlier; wholesale prices rose by about 5 per cent over the same period. About 2½ per cent of the increase in retail prices was attributable to increases in taxation, leaving a rise of about 3 per cent attributable to other factors. In the first four months of this year retail prices rose by about 2½ per cent, of which about half was attributable to the Budget. In March I forecast a rise of 4 per cent in the retail price index for 1965 as a whole; the latest forecast is 4½ to 5 per cent.

Incomes

3. The latest figures of wage settlements show that the average rate of increase in hourly wage rates has been rising and the interval between settlements has been falling steadily—from 15 months in the first quarter of 1964 to 11 months in the first quarter of 1965. The annual average rate of increase in wage rates during the first quarter of 1965 was 5·9 per cent, compared with 4·5 per cent for 1964 as a whole (and in the first quarter of 1964). The average rate of increase was lower in settlements reported from the public sector than those reported from the private sector, but settlements followed each other faster in the public sector than in the private sector, with the result that the annual average rate of increase was about the same in both sectors. Weekly wage earnings increased during 1964 at an annual rate of between 8 and 9 per cent (compared with between 3 and 4 per cent during 1962 and the first part of 1963). We must expect an even higher rate this year.

4. After a steep rise in 1963 aggregate company profits rose by 2 per cent in 1964: the rate of increase was slowing down in the last two quarters. The trend of dividend payments was if anything slightly downward from the middle of 1962 to the middle of 1964, but in the last quarter of 1964 there seems to have been a rise of over 10 per cent, despite the relative stability in profits. This rise was no doubt
partly attributable to anticipation of the introduction of the capital gains tax.

Prospects and policies

5. On prices, the index figures do not yet reflect last month's increases in postal charges, nor of course the increase in the television licence fee and in the price of milk that have been announced but will not come into effect until later in the year. An increase in coal prices cannot be deferred indefinitely, and we must expect widespread increases in bus fares in the coming months. On incomes, the outstanding recent developments in the private sector have been the settlement for printers, which I have referred to the National Board for Prices and Incomes, and recommendations by a committee of inquiry for increases representing an annual rate of 5½ per cent for company busmen. The Ministerial Sub-Committee on Prices and Incomes have been considering a complicated series of leap-frogging claims in the iron and steel industry, which may well have to be referred to the National Board for Prices and Incomes. We face major claims in the public sector: for day wage men in the coalmining industry, for London busmen, for atomic energy workers and later in the year for railwaymen. There is a dispute on the pay and allowances of white-collar workers in the electricity supply industry, and there is a claim to reopen a three year agreement for white-collar workers in local authority employment.

6. There is no doubt that the movements of prices and incomes and the success of our policy are carefully watched overseas and have an important bearing on confidence. If the rise in prices and incomes gets out of hand, it may do irretrievable damage to our prospects of achieving the growth objectives of the plan. We have now completed the process of introducing our prices and incomes policy: the criteria have been laid down and the National Board is at work. The time has come when we must be seen to mean business.

7. Though the recent increases in the pay of postmen may have been justified in themselves, they have been widely interpreted as flouting incomes policy and are quoted as a precedent by every group, inside and outside the public sector, seeking to obtain increases above the norm. I do not suggest that we have to insist rigidly on the norm in every case. What is essential is that there should be clear evidence that the policy is having an influence in individual cases. This is just as important in the public as in the private sector. This is going to mean difficult decisions for all of those Ministers who have responsibilities for determining or approving increases of prices, wages or salaries in the public sector; but failure to take the right decisions on these matters could well mean that we should all be faced with even more unpleasant decisions over a wider area later on. I ask for my colleagues' understanding and support when I have to urge these difficult decisions upon them.

Department of Economic Affairs, S.W.1,
3rd June, 1965.
CABINET

WORKMEN'S COMPENSATION—"OLD CASES"

MEMORANDUM BY THE CHANCELLOR OF THE DUCHY OF LANCASTER

At their meeting on 26th May, 1965, the Social Services Committee considered proposals by the Minister of Pensions and National Insurance to legislate this Session to improve the position of people receiving Workmen's Compensation. The Committee were unable to reach agreement on the proposals and this memorandum summarises the proposals and the differing points of view on them for consideration by the Cabinet.

Minister's proposals

2. The Minister's proposals in brief relate to men who were injured at work before 1948, who come under the old Workmen's Compensation Acts, and to whom the ordinary provisions of the industrial injuries scheme do not apply. Their compensation under these old Acts is generally at a much lower level than the benefits under the industrial injuries scheme, and since 1948 various special supplementary allowances have been created to improve their position. Nevertheless, a substantial number are still some way behind the current standards of the industrial injuries scheme and there are other deserving cases who get no supplementation. This last has been a source of much dissatisfaction and the Minister's predecessor under the last Administration did promise the Trades Union Congress to look again into the practicability of widening the field in which the Industrial Injuries Fund could be used to supplement Workmen's Compensation. In accordance with this promise he put in hand certain investigations with selected employers (of whom the National Coal Board was the most important) and, through the Trades Union Congress, with certain unions. These studies became known and because of them the miners' group at the time of the last general uprating Bill withheld their usual pressure, by way of a set of amendments seeking to achieve more for old cases. Since then, the miners' group in particular have continued vigorously to press us to do something more in this field. The Minister has now worked out proposals which would absorb the earlier arrangements and bring in an additional category of men
receiving compensation which, by present standards, is inadequate. The cost would be rather more than £1 million a year to be met out of the Industrial Injuries Fund. A simple and short enabling enactment would be required which is unlikely to be contentious and, if passed this Session, the scheme could come into operation about the end of the year.

The Minister’s view

3. Despite the difficulty in finding time this Session for additional legislation and the appointment of the Chancellor’s Committee of Ministers to review public expenditure, the Minister of Pensions feels strongly that her proposals should go forward to legislation this Session, which will not be possible if they have to await the outcome of the expenditure review. In addition to the social and humanitarian merits of her proposals there are also substantial political advantages in the introduction of legislation before the annual meeting of the National Union of Mineworkers and the Trades Union Congress on 5th July and 6th September respectively, and she feels that these advantages would be lost if legislation were deferred until next Session. In this she was supported by the Ministers of spending departments on the Social Services Committee. Although the numbers affected by the proposals are not very large (17,000) their case undoubtedly attracts widespread sympathy among the unions and the Government’s supporters in the House and there is a considerable expectation among the unions and Members concerned that very early action will be taken. Indeed, in the absence of such action it is the Minister’s view that criticism at the National Union of Mineworkers and Trades Union Congress Conferences must be expected. The Minister has pointed out the difficulty of arguing that the money cannot be found in face of the Government Actuary’s Quinquennial Report on the Industrial Injuries Fund shortly to be published which will show a substantial increase in the balances of the Fund with further very large increases in future years. She has difficulty in accepting that her proposals are not analogous to the cost-of-living increases recently given to university students; or that there is any serious risk of repercussions elsewhere in the national insurance scheme.

Treasury view

4. The Chief Secretary to the Treasury considers, however, that no decision should be taken until the current review of projects involving additional public expenditure is further advanced during June and July and the priorities worked out. The fact that any expenditure of this kind would fall to be met out of the Industrial Injuries Fund is really not relevant since from a budgetary point of view there is no difference between this and other forms of public expenditure. The Chief Secretary points out that if a favourable decision were reached in June or July, this should enable the Minister to announce to the National Union of Mineworkers and the Trades Union Congress Conferences the Government’s firm intention to legislate next Session. He considers that there is no analogy (as the
Minister has argued) between her proposal for additional expenditure and the recently agreed increases in maintenance allowance for university students, which represent no more than cost-of-living increases and do not affect the forecasts of education expenditure at constant prices. He also suggests that the Minister's proposals would lead to increased pressure for other improvements in social benefits, for example, in relation to people with "latent" rights to workmen's compensation (i.e., those whose earning loss as calculated under the Acts is not currently large enough to entitle them to weekly payments of compensation) and perhaps even in relation to the old people for whom Mr. Airey Neave has urged action.

Matters for decision

5. The matters for decision are:

(1) whether the Minister of Pensions' proposals should be agreed in advance of the general review of additional expenditure; and

(2) whether time can be found for legislation this Session.

D. H.

70 Whitehall, S.W.1.
8th June, 1965.
CABINET

ROAD TRANSPORT: REPORT OF GEDDES COMMITTEE
ON CARRIERS' LICENSING

Memorandum by the Minister of Transport

I seek the agreement of my colleagues to the terms of the statement at Annex A which I would propose to make on publication shortly of the Report of the Geddes Committee on Carriers' Licensing.

2. The Committee was appointed by the previous Administration in October, 1963, with terms of reference "In the light of present day conditions, to examine the operation and effects of the system of carriers' licences first introduced by the Road and Rail Traffic Act, 1933, and as subsequently modified by statute; and to make recommendations". The system of carriers' licences is that operated under the Road Traffic Act by the Area Licensing Authorities for granting A licences (for public carriers), B licences (for traders carrying other people's goods as well as their own) and C licences (for manufacturers and traders carrying goods on their own account only). A copy of the Committee's Report is attached at Annex E.

3. The Committee set out (in Appendix B of their Report) the main statistics of the scale and nature of road transport operations. Compared with the position in the early 1950's road transport has shown a very large increase and in terms of ton mileage is now carrying much more traffic than the railways.

4. The Committee's findings and recommendations are conveniently summarised in Chapter I of the Report. Briefly, their main conclusion is that the licensing system as at present constituted fails to achieve any of the objects which may be regarded as relevant objectives of Government policy, namely promotion of public safety, promotion of efficiency in road transport operations, reduction of harmful effects on amenity and environment, promotion of increased use of rail facilities and reduction or control of congestion. The Committee see no merit in the operation of quantitative controls or restrictions on use of road transport and recommend abolition, in the interests of greater efficiency and restrictions on the capacity of the road haulage industry and on the work for which a lorry may be used, introduction of a system of permits to ply as a carrier of goods to enforce safety requirements more vigorously and the use of measures other than quantitative licensing to pursue Governmental aims of transport policy.

5. The Committee have thus limited their task to considering the effectiveness of a quantitative licensing system as a tool of policy. They have not taken co-ordination of transport as one of the aims.

SECRET
against which they judge licensing, because they see it as the synthesis of the other aims enumerated. They also see co-ordination as usually taking the form in practice of adjustment of the road/rail balance, but they do not offer any view on what the balance should be, or whether the existing balance is right or, if not, in which direction it should be altered or on what principles. The Report, therefore, leaves completely open to Government further pursuit of the aim of co-ordination.

6. In this situation, it is clearly not possible to pronounce for or against the Geddes recommendations. On the one hand, they argue much sound sense against a system which fails now to achieve the purposes for which it was (30 years ago) set up; on the other hand, they offer no guidance on how to achieve the right balance of investment between road and rail, to remedy the lack of co-ordination at the operational level and to secure the right pattern of organisation. In short they offer no specific alternative to licensing nor were they required to do so. They may well be right in their estimate of the ineffectiveness of the present system of licensing to achieve modern transport policies. But clearly we cannot commit ourselves to sweeping away that system until we know more confidently than we yet do what should be put in its place or whether, indeed, it might be retained but modified. In this sense I think we can publicly justify suspending judgment on the main Geddes recommendation by —

(i) accepting that powerful criticisms of the present system have been made;  
(ii) restating our belief that total lack of control over goods transport is quite unacceptable;  
(iii) and emphasizing that until we are in a position to devise an alternative, whether by licensing or otherwise, more appropriate to the needs of the 1960's than the system devised in the 1930's, we do not propose to abolish that system, but neither do we endorse it.

7. It is clear that some regulation of road transport is essential, but we can only determine the precise form it should take when we have completed the studies on means of achieving co-ordination of transport which are in hand (including those being carried out by Lord Hinton, the progress of which I will explain when we meet). I am now engaged in the preparation of a draft White Paper showing, for the information of my colleagues, the progress being made in transport policy and the kind of work that still needs to be done. It may be useful to publish such a paper. Meanwhile I propose publication of the Geddes Report as soon as practicable (I have already announced that I hope to publish it by the end of June), and seek the agreement of my colleagues to my proposed statement.

T.F.

Ministry of Transport, S. E. L.

10th June, 1965
ANNEX A

DRAFT STATEMENT

GEDDES REPORT ON CARRIERS' LICENSING

With permission, I wish to inform the House that the Report of the Committee of Carriers' Licensing, under the chairmanship of Lord Geddes, which was appointed by the previous Administration, is being published today. Copies will be available immediately in the Vote Office and from H.M. Stationery Office.

The Committee say, in brief, that the present system of licensing does not secure any existing or conceivable aims of transport policy. They consequently recommend abolition of all quantitative licensing restrictions on the capacity of the road haulage industry and on the work for which lorries may be used.

They positively recommend the introduction, in the interests of safety, of a system of permits to ply as a carrier of goods; and of a system of carriers' permit identification plates, liable to forfeit.

For other aims of Government policy they suggest that measures different from the present quantitative licensing system should be examined.

The Committee thus make it clear that they were concerned with the effectiveness of the present licensing system as a tool of policy and quite properly - did not think it within their terms of reference to suggest either what the aims of transport policy should be or what might be the alternative methods of accomplishing them.

For my part, I believe that total absence of regulation over road goods transport is quite unacceptable. I certainly accept that the Geddes Committee have shown that in many respects the present licensing system provides ineffective regulation. But whether this system can be brought up-to-date or whether it must be abolished and replaced by something different, I am not yet prepared to judge.

The Government has in hand studies into the means whereby and the extent to which the transport of goods and passengers can best be co-ordinated and developed in the national interest. These studies will take full account of the Geddes Committee's conclusions and recommendations. Until the studies are completed, I cannot say whether the Committee's recommendations will prove acceptable or not. Meanwhile, I shall welcome views on the Report of Members of the House and of interested organisations.

I wish to take this further opportunity of expressing to Lord Geddes and his colleagues my appreciation of the hard work and devotion which they brought to their task.

Of one thing I am certain - the nation cannot afford a completely unregulated, unco-ordinated road and rail transport system; if we agree that the present licensing system is inadequate for the purpose, other means must be found.
CARRIERS' LICENSING

Report of the Committee

LONDON
HER MAJESTY'S STATIONERY OFFICE
EIGHT SHILLINGS NET
Members of the Committee

Chairman:  THE LORD GEDDES, C.B.E., D.L.
W. L. BARROWS, ESQ., J.P., F.C.A.
HIS HONOUR SIR WALKER CARTER, Q.C.
SIR DAVID MILNE, G.C.B.
SIR VINCENT TEWSON, C.B.E., M.C.
PROFESSOR B. S. YAMEY

Secretary:  J. M. MOORE, ESQ., D.S.C.
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We were appointed by your predecessor the Rt. Hon. Ernest Marples, M.P., on the 18th October, 1963 with terms of reference:

"In the light of present day conditions, to examine the operation and effects of the system of carriers' licences first introduced by the Road and Rail Traffic Act 1933, and as subsequently modified by statute; and to make recommendations."

We now have the honour to submit our Report.

Following our appointment we issued a general invitation to interested parties to let us have evidence in the form of memoranda. In addition we wrote to 165 persons and organisations whom we thought to have a special interest in carriers' licensing, explicitly to draw their attention to our task and to the general invitation we had issued.

We received written evidence from 173 Associations and individuals, singly or in combination, some of whom amplified their evidence in further submissions in response to our enquiries, so that in all we received 168 memoranda. 28 organisations and individuals accepted our invitation to give oral evidence. A list of those who have given evidence is attached at Appendix A of this report.

We wish to express to all these many people our appreciation of the help they gave us in our task. All had clearly given careful thought to the views they put before us, and many must have spent much time and effort in preparation. Since the views of some conflicted directly with those of others, we have inevitably not been able to endorse them all, but all have found a place in our studies. The thoroughness, courtesy and patience we met throughout our task have been a great help, and we are most grateful to everyone concerned.

We met on 25 days in all, of which 14 were devoted in whole or in part to the hearing of oral evidence. Varies we attended public inquiries held by Licensing Authorities into applications for carriers' licences, hearings on appeal before the Transport Tribunal and roadside checks by your Department on the mechanical fitness of goods vehicles.

We have been most excellently served by our Secretary, Mr. J. M. Moore, D.S.C. We have received collectively and individually from him a much higher
degree of assistance than we had a right to expect. His experience has been of outstanding benefit in unravelling the many technicalities with which we were faced. He has skilfully kept our work well ordered, and our Agenda logical and well organised. His contribution to the drafting of the Report has been of the utmost value. Our thanks are due beyond measure to Mr. Moore.

0.7 He has been most capably supported by Mr. A. J. Rosenfeld and in turn by Messrs. J. W. Baker, J. R. Fells, P. R. Caswell and D. O. McCreadie; and we have all been much indebted to Mr. P. J. Reed, M.B.E. and Miss M. S. Hickey, who have untiringly seen to our papers and other needs. To all of them we express our gratitude.

General Approach

0.8 Our terms of reference were perhaps deceptively concise. At first reading they might seem to suggest that our task was narrow and that we should be concerned only with the details of the present licensing system and its operation. As Chapter 13 below will show, certainly enough points were put to us in evidence, both orally and in writing, dealing exclusively with such matters, to provide us with material for an extensive detailed review of the system.

0.9 We had no hesitation in deciding that a limited approach would be wrong, and that we had to take a wider view. Your predecessor indicated in the House of Commons, in announcing his intention to put our work in hand, that the Committee's task would be “to re-examine the fundamental bases and working of the licensing system”* (a statement to which we drew attention in inviting evidence). Clearly we could not carry out this remit without considering the principles underlying the licensing system. And even without this guidance, it soon became clear to us that we would have to examine the licensing system in terms of its original aims and of other objectives which we thought that government might wish to consider. Only thus would we be able to give you our views on how it has worked, and how, if at all, it should be changed.

0.10 We have therefore tried to address ourselves widely to the problems put before us. These problems proceed almost infinitely onwards one from another in ever-widening scale and implication. Hard though it is to draw a boundary, we have thought it right not to pursue matters whose direct connection with licensing was somewhat tenuous. Some problems we considered to be outside our terms of reference yet well within the field of general transport policy. In such cases we have felt it right to draw attention to relevant considerations that we have encountered in the course of our enquiries and study and to say how licensing might bear upon them. We have not, however, attempted complete statements of these problems or comprehensive analyses of possible solutions. It is thus that we have nothing to say as to the extent of public ownership of road transport of goods. We make no recommendations as to where lies the appropriate balance of social and economic advantage between road and rail. Nor explicitly do we discuss the precise nature and degree of co-ordination, integration or similar joint working between forms of transport which ought to prevail. All these matters, we felt, involved considerations of general transport policy on which it was not for us to proffer views.

Glossary

0.11 It is convenient to explain here our use throughout this report of certain words as terms of art:

“lorry” as meaning any road vehicle constructed or adapted for the carriage of goods (and therefore including vans and many specialised vehicles);

“heavy” lorries as meaning those weighing more than three tons unladen;

“hire or reward” to denote carriage of goods for others (i.e. under a carriers’ A, A Contract or B licence) as opposed to

“own account” to denote carriage of goods solely in connection with the trade or business of the owner of the vehicle (i.e. under a carrier’s C licence);

“road haulage” or “road hauliers” as applying solely to the carriage or haulage of goods for hire or reward (and not therefore including carriage or haulage “on own account”);

“operator” as applying to any holder of a carrier’s licence.
CHAPTER 1

Summary, Conclusions and Recommendations

1.1 In Chapters 2, 3 and 4 we set out briefly the history of the system of carriers' licensing and its present form, we survey the industry operating under that system and we review the way some other countries regulate the road transport of goods. The most important points in this part of our Report can be summarised as follows:

(i) The present system of licensing, after 30 years of evolution, is now an elaborate process of regulation of what lorries may carry, and provides a sanction (albeit little used) against the unsafe use of the roads by lorry operators. (Paragraphs 2.1-2.55)

(ii) Circumstances have changed profoundly since the introduction of licensing. Lorries are now the main means of carrying goods in this country. (Paragraph 2.2)

(iii) Most of the work is done by roughly 325,000 heavy lorries. (Paragraph 3.2)

(iv) C licensed vehicles account for nearly half the work done by heavy lorries. (Paragraph 3.14)

(v) Lorry traffic has grown in recent years mainly because the industries which find road transport best for their needs have grown relatively to those industries for which rail is the best form of transport. (Paragraphs 3.17-3.19)

(vi) There was no evidence that users are dissatisfied with the services of the road haulage industry. (Paragraph 3.26)

(vii) The rate of bankruptcy in road haulage is not unduly high, and does not suggest any serious lack of stability in the industry. (Paragraphs 3.27-3.37)

(viii) Although local circumstances vary widely and in important basic respects, most foreign countries regulate road transport of goods fairly closely. (Paragraphs 4.1-4.17)

(ix) But in the few cases where there is little restriction, this seems to have brought benefits, without any dire consequences. (Paragraphs 4.18-4.19 and 4.23-4.28)

1.2 In Chapters 5-13 we examine the licensing system against the aims of policy which we think government might have as regards road transport of goods. We also look at the question of C licensed operation and of track costs, and set out some of the many detailed proposals made to us for reform of the present system. Our main conclusions on these matters can be summarised as follows:
POSSIBLE AIMS OF POLICY

(i) The main possible objectives of government policy in regulating road transport of goods are:

- the promotion of the safety of the public;
- the promotion of efficiency in road transport operations;
- the reduction of any harmful effects of road transport on amenity and environment;
- the promotion of increased use of available rail facilities for the movement of goods;
- the reduction or control of congestion on the roads. ( Paragraphs 5.3-5.8)

(ii) The consideration of licensing in terms of these five objectives makes it unnecessary for us to consider co-ordination of transport as a separate objective of transport policy. (Paragraphs 5.9-5.11)

LICENSING AND SAFETY

(iii) Licensing has not had any significant bearing on road safety. (Paragraphs 6.15-6.32)

(iv) No practicable system of quantity control can achieve greater safety. (Paragraph 6.33)

(v) A revocable permit to carry goods can have a vital place as a disciplinary measure. (Paragraphs 6.37-6.38)

(vi) Removal of a conspicuous permit plate from any lorry whose owner's permit has been revoked or which has been found on the road in bad repair or overloaded can provide a simple means of enforcing revocation of a permit and a ready and effective deterrent to these offences. (Paragraphs 6.39-6.40)

(vii) Action can with advantage be increased to detect and punish offences against safety. (Paragraphs 6.48-6.52)

LICENSING AND EFFICIENCY

(viii) The restrictions imposed by licensing reduce efficiency, and licensing as a whole offers no off-setting advantages in this field. (Paragraphs 7.10-7.14)

LICENSING AND AMENITY

(ix) Quantity control by licensing cannot usefully check the potential of lorries for nuisance, which is best met by attacking the causes of the noise and smoke they make. (Paragraphs 8.6-8.10)

LICENSING AND THE RAILWAYS

(x) It is for government to decide whether steps should be taken to increase the carriage of goods by rail relative to their carriage by road; in so deciding, it would be important to balance the possible gains against possible losses. (Paragraphs 9.2-9.3)

(xi) Licensing has not in recent years helped the railways. (Paragraphs 9.6-9.12)

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(xii) It cannot be made to do so without an inordinately large and complex administrative machine and without placing a heavy burden on industry and trade. (Paragraphs 9.13-9.32)

(xiii) If the policy was to divert goods traffic from road to rail, taxation of lorries and preferably the increasing of the attractions of rail service are likely to be more efficient instruments than any attempt to use licensing. (Paragraphs 9.38-9.41 and 9.48-9.50)

**Licensing and Congestion**

(xiv) Licensing has not been and cannot be a useful way of reducing or controlling road congestion. (Paragraphs 10.18-10.24)

**Own Account Operation**

(xv) There is little inefficiency in C licensed operation, and what there is can best be reduced by allowing traders and manufacturers to use their lorries free of restriction as to what they may carry. (Paragraphs 11.3-11.11 and 11.23)

**Track Costs**

(xvi) We cannot give a final answer to the question of track costs. (Paragraph 12.21)

(xvii) The present situation as to track costs does not require the continuation of any system of quantity control of lorries through licensing; nor would such a system be required for making any change in the situation. (Paragraphs 12.22)

**Proposals to the Committee for Reform of the Details of the Present System**

(xviii) In view of our conclusions under each of the heads under which we have looked at licensing, there is no call on us to pursue in depth the many proposals made to us for reform of its details. (Paragraphs 13.1-13.2)

(xix) The number of these proposals suggest that the present system is a long way from satisfying even those who agree with its present basis. (Paragraph 13.38)

(xx) The proposals also show the complexity of the apparatus of licensing which has grown up. (Paragraph 13.38).

**General Conclusion as to Present System of Licensing**

1.3 Neither the present system of licensing nor any variant of it based on control of the number of lorries and restriction of what lorries may carry offers a useful way to achieve what we think might be the main aims of government policy in regulating carriage of goods by road. In three respects such licensing acts adversely. It reduces efficiency. It tends to confer positions of privilege. And it tends to add to congestion on the roads.

**Recommendations**

1.4 We therefore recommend:

(i) The abolition of all restrictions on the capacity of the road haulage industry and on the work for which a lorry may be used. There should be no
statutory bar to entry to the hire or reward sector of the road transport industry. Traders and manufacturers should be allowed to use their own vehicles for any work they choose to undertake, including carriage for hire or reward.

(ii) *The introduction of a system of permits to ply as a carrier of goods* (whether for hire or reward or on own account or both). These permits should be available on demand, but held subject to good behaviour as regards all aspects of safety of lorries. The issuing authority should have power to suspend, revoke, or curtail any permit for offences against lorry safety or for failure to comply with prescribed standards in this field. This power should be used vigorously.

(iii) *The introduction of a system of carriers' permit plates*, one to each lorry. The plate would be forfeit during any period of suspension, revocation or curtailment of the owner's permit to ply and would be summarily removed from any lorry found to be mechanically defective or overloaded.

(iv) *The use of measures other than the present licensing system to pursue any further aims of policy which the government might have.*

1.5 We believe that our first recommendation will commend itself to most people outside the road transport industry. We are also aware that it may be looked on with apprehension by some road hauliers, who may be fearful of the loss of the protection which the present system affords them. But we think that efficient and enterprising operators have nothing to fear, and indeed much to gain from the removal of the irksome restriction about which many of them complained to us. We are sure they would find after a little experience that for them, as for the country generally, the change had been for the better.
CHAPTER 2

History and Present Form of the Licensing System

(i) History

The Background to Licensing

2.1 The present system of carriers’ licensing derives its statutory authority from the Road Traffic Act 1960, which is a consolidation of previous measures. The main framework of the system was first established over 30 years ago, by the Road and Rail Traffic Act 1933. This framework has been modified in minor degree by subsequent Acts of Parliament, and the application of some of its principles has been slowly transmuted by process of case law. But, in essence, the system has stood unchanged for 30 years.

2.2 It is to be noted that this durability cannot have been because of the permanence of the basic circumstances which led to licensing. These circumstances have changed profoundly. Up to 1933 the railways were the main carriers of goods and were subject to strict controls. Road transport, carrying a relatively small proportion of the country’s goods traffic, was free from almost any obligation or limitation. Now the railways enjoy almost complete commercial freedom, but carry only the lesser share of the traffic, while road transport, the predominant carrier, is hedged around with restrictions, though not with obligations.

Conditions before Licensing

2.3 In 1921, the railway companies were required by the Railway Act of that year to revise their charges scheme. It took until 1928 to bring the new schedules into effect. The schedules were simpler than those they replaced, but were still based on the principle of charging what the traffic could stand. The charge was thus in part decided by the basic value of the goods concerned. Low priced raw materials were carried at low freight rates, regardless of the cost to the railways of doing the work. The schedules were designed to secure equity between traders, uniformity as between one place of consignment and another and as between one transaction and another. Against the old background of railway monopoly the arrangements seemed appropriate. Yet in this very period while the new railway schedules were being produced, the railways’ virtual monopoly of all but short distance freight was being attacked for the first time. The new schedules made it more difficult for them to meet the commercial challenge. With charges related to the value of the goods carried rather than to the cost of carrying them, with an obligation not to discriminate in their charges to similar users, and with a common carrier obligation to boot, the railways were extremely vulnerable to the aggressive and fast developing road transport industry.
2.4 The end of the First World War released on to the roads many motor vehicles for use, virtually without restriction, as commercial goods vehicles. Road hauliers needed little capital, and their unit of operation was extremely flexible. They were able to provide a personal and direct service and, at the same time, to relate charges closely to the cost of the individual load and journey. As a result, the railways tended to lose to road their more valuable traffics (i.e. those where the profit margin was greatest) and to be left with low value traffics often carried at a substantial loss. In these circumstances, the small haulier could and did flourish.

2.5 There can be no doubt that, at the same time as it made its first serious inroads into rail freight, the road transport industry earned a bad name for the overdriving of both men and machines in a fiercely competitive situation. It has also been strongly argued, both at the time and more recently, that this period of free competition resulted in excessive rate cutting, financial anarchy and instability damaging to the industry and so to its customers. It is particularly difficult to judge the extent to which these claims were justified. Some evidence we have received suggests that the position may not have been so bad as has sometimes been maintained. Because of the relevance of the point to our work, we sought out specially the recollections of some of the people who had direct experience of road haulage before licensing was introduced. While their views differed, we gained the impression that competition did not prevent transport users from getting a reliable service from road hauliers. No doubt many small operators got into financial difficulties, particularly when rates were generally low in the depression years. But in the circumstances of the times it would perhaps have been surprising if this had not been so. Work done by Professor Walters of Birmingham University in 1958 suggested that the bankruptcy rate among hauliers before licensing was introduced was lower than in some other trades consisting largely of small men, and that it declined from the level in the immediate post-war years in spite of the depression. This tends to support the view that the troubles of the industry may have loomed larger than was strictly justified. They were perhaps the natural growing pains of a new industry made up mainly of small operators, rather than the malaise of a chronically over-competitive situation.

2.6 Nevertheless, the view was widely held in the late 1920's that:

(i) in the interest of safety and amenity, some controls would have to be imposed on the road haulage industry, and

(ii) that the greater commercial freedom enjoyed by road as compared with rail would lead to an inequitable and uneconomic distribution of good as between road and rail.

Royal Commission on Transport

2.7 To examine this situation a Royal Commission on Transport was appointed in 1928:

"To take into consideration the problems arising out of the growth of road traffic, and with a view to securing the employment of the available means of transport in Great Britain (including transport by sea, coastwise and by ferries) to the greatest public advantage, to consider and report what
measures if any, should be adopted for their better regulation and control, and, so far as desirable in the public interest, to promote their co-ordinated working and development”.

The Commission resolved its task into three distinct spheres:

(i) that concerning the free and easy movement of motorised vehicles on the roads and their control, mainly from the point of view of safety;

(ii) that concerning the licensing of public service vehicles and the co-ordination of the various forms of passenger transport; and

(iii) that concerning the general co-ordination and development of all available means of transport, taking particularly into account the rapid growth of road haulage.

Three separate reports were issued dealing with each of these aspects in turn. The first and second were the genesis of the Road Traffic Act 1930, in which public service vehicle licensing was introduced. The Act also embraced speed limits, driving licences, vehicle lighting, maximum weights and dimensions, construction and use of vehicles, and compulsory insurance, and placed limitations on the hours of drivers of commercial vehicles.

2.8 Control of goods vehicles was considered in the third report. The report contained, inter alia, the following recommendations:

(i) that heavy goods vehicles (over 4 tons unladen weight) should pay considerably more duty for each successive extra ton weight, as a means of discouraging the use of heavy vehicles and of protecting the railways from further loss of traffic, in the national interest;

(ii) that road haulage should be licensed so as to put the industry on to an organised basis and as an essential precedent to any attempt to co-ordinate transport generally; and

(iii) that it should be a condition of issue of carriers' licences that the authorising Traffic Commissioners should have regard to the fitness of the vehicle concerned and the wages and conditions of employees of the applicant for a licence.

Salter Conference

2.9 These recommendations were not immediately implemented. In April 1932, the Minister of Transport convened a Conference of railway and road haulage representatives under the independent chairmanship of Sir Arthur Salter (now Lord Salter) to consider:

(a) the incidence of highway costs in relation to the contribution of the different classes of mechanically propelled vehicles;

(b) the nature and extent of the regulations which, in view of modern economic developments, should be applied to goods transport by road and rail, and

(c) in general, any measures which might assist the rail and road industries to “carry out their functions under equitable conditions, which adequately safeguard the interests of trade and industry.”
2.10 The Conference Report stated:

"in our recommendations we can only offer an alleviation of one of the principal causes of (railway) loss, by dealing with any existing unfairness in the incidence of highway costs and inadequacy of the regulations to protect the public and other users of the roads against undesirable forms of road traffic by goods vehicles ".

2.11 The Conference did not seem unduly worried about the handicap of the railways in being tied to ad valorem charging schemes. They said:

"it is the fact that the railways are so organised (in large units) and not the existence of statutory regulation, which mainly accounts for the handicap of the railways in this respect ".

In his most helpful oral evidence to us, Lord Salter drew on his remarkable memory to add that in any event, drastic departure from the old railway pattern of rates would have been unthinkable when so much of industry had been located on the expectation of those rates. An abrupt change to rates based on the costs of each movement would have been disastrous.

2.12 As to highway costs, the Conference worked out, from information to hand and by some rough and ready estimating, a detailed scheme of taxation for road vehicles which, when taken together with fuel tax, would in their estimation fairly meet the track costs of road goods vehicles. The exercise involved working out the total annual "cost" for roads; deciding the share of this cost appropriate to goods vehicles; and calculating tax rates for each class of goods vehicle, according to the cost it imposed, so as to bring in the revenue to cover that cost. With the statistical and other information available at the time, some of the data had to be estimated, with little to go on. But nobody else was in a position to do better. The Conference of course recognised that if the basic facts changed the taxes they proposed would have to be recalculated to reflect the new circumstances.

2.13 Both the Royal Commission on Transport and the Salter Conference regarded the establishment of satisfactory working conditions in road haulage and better maintenance of vehicles as compelling arguments for some kind of licensing. Paragraph 99 of the Salter Conference Report says:

"we agree without hesitation that all such vehicles should be required to have licences which are conditional . . . also upon the observance of proper conditions as to fair wages and conditions of service, and the maintenance of vehicles in a state of fitness ".

They recognised implicitly however (see paragraph 2.14 below) that the attainment of these ends would not necessarily mean limiting the quantity of road transport.

2.14 The Salter Conference gave as the main reason for advocating a system of quantitative restriction of road haulage the evil effects of excessive competition. We cannot do better than to quote at length from the report in order to give an idea of how the balance of advantage was seen by the Conference:

"We approach a much more difficult question when we consider whether such a licensing system should be used to deal in any way with what the Road Haulage Association rightly term the evils of overcrowding and
unbridled competition in the transport industry. It is clear that these evils exist and that though they will be reduced by the changes in the incidence of highway costs which we propose, they will not be thus entirely removed. Any individual has at present an unlimited right to enter the haulage industry, without any regard to the pressure on the roads or any existing excess of transport facilities. He is able to purchase his vehicle on the instalment system and is often tempted to force his way in by offering rates which are completely unremunerative and necessarily lead to bankruptcy which, nevertheless, does not discourage others—or perhaps even himself—from following the same course in perpetual succession. This unrestricted liberty is fatal to the organisation of the industry in a form suitable to a carrier service purporting to serve the public. On the other hand we are equally impressed with the evil of any system which would prevent trade and industry from securing the form of transport which is adapted to its ever changing needs at the lowest practicable cost that can be obtained on a salutary basis. Every form of transport needs adaptation to the changing requirements of economic enterprise; and any system which discouraged this adaptation would obviously be against the public interest”.

2.15 To meet the aims of the Conference as to condition of vehicles and of working of drivers, and as to competition in road transport, the Conference recommended that:

(a) all goods vehicle operators should be licensed;

(b) the grant of a licence for both public and private carriers should be conditional on the payment of reasonable wages, the observance of proper conditions of service for drivers and an undertaking to maintain the vehicles properly;

(c) a licence should not be granted to a public haulier where it would be against the public interest, that interest being determined in terms of:

(i) any excess in the existing transport facilities suitable to meet the public requirements to be served by the applicant;

(ii) any actual or prospective congestion or over-loading of the roads;

(iii) any convictions registered against the applicant or his employees for the previous year in respect of offences in connection with his road transport vehicles or previous bankruptcy;

(d) licences for own account operators should be issued without restriction but the operators should not be permitted to carry for hire or reward outside a radius of 10 miles from base.

2.16 In applying for a licence the applicant was to specify the carrying capacities as well as the registration numbers and unladen weights of the vehicles which he wished to have licensed, and these particulars should appear on the vehicle. Licensed vehicles should also carry a plate giving the owner’s licence number and an individual number for each vehicle.

2.17 The Conference also recommended that drivers should be required to keep records so that the limitation on driving hours could more readily be enforced.
2.18 The Conference made few recommendations on the subject of co-ordination between road and rail but expressed the hope that the good relations between road and rail representatives in the Conference might bear fruit in collaboration thereafter with a view to the co-ordination of services between road and rail and in particular the development of combined services making use of containers. They also supported the view of the Royal Commission that it was not “in the national interest to encourage further diversion of heavy goods traffic from the railways to the roads” and recommended that “the Minister of Transport should obtain powers to prohibit by regulation classes of traffic which are borne by rail and which having regard to the character of the commodity and the distance together, are unsuitable for road haulage, from being transferred in future to the road”.

Action on the Salter Conference’s Recommendations

2.19 The Conference’s recommended schedules of excise tax on goods vehicles were put into effect, virtually unaltered, by the Finance Act 1933. The vehicle tax position remains substantially unchanged to this day. The Conference’s proposed level of petrol tax was in fact the then prevailing rate, and this was continued, at 8d. per gallon. As the untaxed retail price of petrol was then only about 113d. a gallon, the tax was about 42% of the total price. The cash amount of the fuel tax today is of course much higher (currently 3s. 3d. a gallon) but this is on an untaxed price of 1s. 8d. and 1s. 10d. per gallon for standard grade petrol and derv (diesel oil) respectively, or 66% and 64% respectively of the total retail price. It must also be borne in mind that the yields from both taxes are now much higher, because of the great increase in the number of goods vehicles.

2.20 The other recommendations of the Conference, as to licensing and conditions in the road haulage industry, were incorporated with few significant changes (notably the omission of any explicit reference to road congestion or of any power for the Minister to prohibit road carriage for certain classes of traffic) in the Road and Rail Traffic Act 1933. The same Act also gave to the railways a certain measure of freedom to negotiate freight rates with individual traders subject to the approval of an independent rates tribunal. The Act was thus a deliberate attempt to impose a balance on road/rail competition and thereby on the distribution of goods between road and rail.

2.21 In essence the Act provided for three types of licence: the A licence for public carriers; the B licence for traders carrying the goods of other people as well as their own; the C licence for manufacturers and traders carrying goods on their own account only. In addition, provision was made for a special form of A licence (the A Contract licence) where there was only one customer, with whom the haulier had a contract for exclusive use of the vehicle for at least a year. Issue of licences was made the responsibility of Licensing Authorities, who were at the same time the Chairmen of Traffic Commissioners established under the 1930 Act to control public service vehicle licensing. In considering the grant of A or B licences, Licensing Authorities were required to have regard, inter alia “to the interests of the public generally, including those of persons requiring, as well as those of persons providing facilities for transport”. They were to take
into account objections, on the grounds that grant would lead to over-provision of suitable transport, from persons already providing transport facilities. But grant of a C licence could only be withheld where the applicant had previously had a licence revoked or suspended. All licences were made conditional on the applicant satisfying requirements as to the safety, construction and use of vehicles, and as to drivers' hours, the keeping of records and payment of proper wages. Provision was made for appeal against the decisions of Licensing Authorities, to a specially constituted tribunal with status akin to that of the High Court.

Early Development of the Licensing System, and the War Years

2.22 The licensing system as laid down in the Road and Rail Traffic Act 1933 came fully into effect in October 1934 (by which date all public haulage vehicles had to be licensed). As the system got under way, case law in the hearings before the Licensing Authorities and the Road and Rail Traffic Appeal Tribunal began to settle a number of important principles of application of the statute. These included the following:

(i) "It is not sufficient for the applicant for an A licence to discharge the burden of proving that there are persons ready and willing to employ him. He must also satisfy the Licensing Authority that the haulage he proposes to do cannot for some reason be done by other carriers already engaged in carriage, whether by road or rail". (Enston and Company v. London, Midland and Scottish Railway Company, 1933).

(ii) [But] "... if the applicant is an operator already established during the basic year it is sufficient to show some expansion in the business of his customers ...". (Hawker v. Great Western and London, Midland and Scottish Railway Companies, 1935).

(iii) "Another suggestion which was in substance made, was that the Licensing Authority should make a classification of goods which should in normal circumstances be carried by rail and in normal circumstances by road. We can find nothing in the Act even to suggest that it is part of the duty of a Licensing Authority to make such a classification". (Four Amalgamated Railway Companies v. Bouts-Tillotson, 1936).

(iv) "... that the burden of proving an objection that the applicants have abstracted traffic from the objectors does not lie on the objectors, but that it is for the applicants to disprove the objection". (London, Midland and Scottish, Great Western and London and North Eastern Railway Companies v. Motor Carriers (Liverpool) Ltd., 1935).

(v) "It would not be in the public interest to grant a licence to carry goods hitherto carried by another carrier, provided that the previous carrier's facilities were suitable. The fact that the latter were slower did not render them unsuitable in the absence of evidence that a more expeditious delivery was reasonably necessary to the trader". (H. W. Hawker Ltd. v. Great Western and London, Midland and Scottish Railway Companies, 1936).
that in considering whether objectors' facilities were suitable a Licensing Authority ought to take into consideration neither the fact that road rates were cheaper (unless they were uneconomic) nor the fact that warehouse accommodation would be provided . . . .” (London, Midland and Scottish and London and North Eastern Railway Companies v. Stevenson Transport Ltd., 1937).

If the holder of an A licence applies for the authorisation of extra vehicles to be normally used for carrying from a particular base, he must first prove a need for these vehicles to carry goods outward from that base. If he proves that need, evidence as to return loads may be helpful, though not, strictly speaking, necessary. If he does not prove that need, evidence as to return loads will not support his application”. (Moss Brothers v. Southern Railway Company, 1935).

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A coal merchant who is unable to discharge the ordinary burden of proof should nevertheless be granted a B licence if:

1. his business is genuine;
2. he requires the vehicle for carrying goods in connection with his own business and these goods cannot satisfactorily be carried otherwise;
3. taking the year as a whole the vehicle cannot be economically operated unless used during the off season for hire or reward; and providing a special condition be attached preventing him carrying for hire save during the off season and preventing wasteful competition”. (Southern Railway Company v. Lambert, 1936).

2.23 These principles settled by case law sometimes had an important bearing on the whole course of development. But in its main features the system continued unchanged up to the outbreak of war in 1939. Its full operation was then formally suspended to allow a greater freedom of administration more in key with the needs of the times. But the framework of the system remained. The Licensing
Authorities, under a different title, issued "defence permits", which were broadly similar to licences, and followed the licence categories; but the procedure for consideration of applications was made simpler. (There were no public hearings or appeals to the Tribunal). Rationing of motor fuel gave another strong Governmental control over road transport. This control was strengthened by the conferment in 1944 upon the Government's Road Haulage Organisation (comprising most of the major long distance road operators, and operating under direct government orders) of virtually monopoly powers. The main aim of policy was to cut down consumption of fuel oil and rubber, and to this end the use of rail transport was insisted on by the Government to the practical limit.

Nationalisation and Denationalisation of Long Distance Road Haulage (The Transport Acts of 1947 and 1953)

2.24 In August 1946 licensing was reintroduced, but the old order did not stand for long. The Transport Act of 1947 put long distance public road haulage, together with the railways and inland waterways, into public ownership under the British Transport Commission. The Act made little amendment to the carriers' licensing system itself, but exempted from licensing the Commission's goods vehicles. All "long distance" road haulage concerns, apart from those in certain specialised traffics, were acquired either voluntarily or compulsorily and were transferred to the management of the Road Haulage Executive of the Commission. (A long distance concern was defined as one more than half of whose operations in 1946 entailed journeys of 40 miles or more during which the vehicles went outside a radius of 25 miles from their operating centre). The takeover and digestion of the many firms and assets involved inevitably took time and drew on much of the resources of the Commission and the Executive. The processes of acquisition were not really completed until 1951. So during this period not much experience was gained of the workings of the operational system envisaged by the Act.

2.25 By December 1951, the British Transport Commission had, in addition to the road haulage collection and delivery fleet of the railways, some 41,000 road haulage vehicles (i.e. about one quarter of the national A and B licensed fleet). Those A and B licensed operators not taken over were only allowed to carry goods outside a 25 mile radius from their operating centre if they had a permit granted by the Commission. C licensed vehicles were unaffected by the Act and continued during the period to grow as competitors to rail and road haulage alike.

2.26 The Transport Act of 1953 sought to restore the essentials of the position as in 1939. The Commission was to dispose as quickly as was reasonably practical of the vehicles and property held for the purposes of the Road Haulage Executive. The vehicles sold were given A licences as of right for up to 5 years, after which they came under the ordinary regime. In the event, reasonable offers were not forthcoming for all that was put on sale, and under the Transport (Disposal of Road Haulage) Act 1956, the Commission were relieved of their obligation to dispose of all their vehicles. They were left with some 14,000 vehicles, a fleet big enough then (as now) to make them far and away the biggest road haulage undertaking in the country. This fleet however made subject to the licensing procedure in the ordinary way, but the initial grant of licences was made automatically for the vehicles then in the Commission's hands.
Other Changes made by the Transport Act 1953

2.27 The 1953 Act also made two other potentially important changes of emphasis in the licensing system. The 1933 Act and the 1953 Act both enjoined the Licensing Authorities to have regard to the interests of the public generally. But with a view to securing more freedom in the issue of carriers’ licences for road goods vehicles, and thereby increasing competition, these criteria were amended by the 1953 Act to give priority of consideration to the interests of trade and industry, as users of transport, over those of the providers of transport (the 1933 Act had had no specific difference of emphasis as between user and provider). The Licensing Authorities were in future to have regard “to the interests of the public generally including primarily those of persons requiring facilities for transport and secondarily those of persons providing facilities for transport”. (Transport Act 1953, Section 9(1)).

2.28 The 1953 Act also specially empowered the Licensing Authorities for the first time to consider charges and efficiency. The provisions were:

“in considering whether existing transport facilities are to be treated as suitable, the Licensing Authority shall have regard to the relative efficiency, reliability and adequacy of the existing facilities at the date of the application and the facilities which the applicant will provide if his application is granted, and to all other relevant considerations, including, to such extent, as may in all the circumstances appear proper, the charges made and to be made in respect of those facilities respectively”.

(Section 9(3)(b)).

Consolidation of Earlier Legislation into the Road Traffic Act, 1960

2.29 The Road Traffic Acts from 1930 to 1956 were consolidated in the Road Traffic Act of 1960. Part IV of the latter Act is substantially the road haulage licensing part of the 1933 Road and Rail Traffic Act, and is the present ruling statutory basis of the goods licensing system.

(ii) THE PRESENT LICENSING SYSTEM

Carriers’ Licences

2.30 An operator must obtain the appropriate carriers’ licence before he may use a goods vehicle on a road for the carriage of goods for hire or reward, or for his own trade or business. A “goods vehicle” is defined as a motor vehicle or trailer constructed or adapted for use for the carriage or haulage of goods. There are 3 main types of carriers’ licence and 1 sub-type:

THE PUBLIC CARRIER’S OR A LICENCE

The holder of an A licence may use the authorised vehicles for the carriage of goods for hire or reward. No conditions can be attached to this type of licence, but an applicant for an A licence must make a declaration (which has come to be known as his “normal user”) of the main work he intends to do with the authorised vehicles. This declaration usually deals only with traffic outward from the area of the vehicles’ base. If he is not to risk his licence, he must in general do what he said he was going to do; but he is free to do anything else which is compatible with compliance with his declaration.
THE CONTRACT A LICENCE
Within the A category, a licence to operate a vehicle solely for the use of one customer, and under a contract accordingly with a term of at least a year, is called a Contract A licence.

THE LIMITED CARRIER'S OR B LICENCE
The holder of a B licence may use the authorised vehicles for the carriage of goods either in connection with any trade or business carried on by him or, subject to any special conditions attached to the licence, for hire or reward. Conditions usually limit the type of goods that may be carried, the persons for whom goods may be carried, the area of operations, or some combination of these factors.

THE PRIVATE CARRIER'S OR C LICENCE
The holder of a C licence may use the authorised vehicles for the carriage of goods in connection with any trade or business carried on by him but not for the carriage of goods for hire or reward.

2.31 A licence in any category may authorise the use of one or more vehicles. An authorised vehicle is usually specified in the licence by its registration number. However, where an applicant needs to hire vehicles from time to time, vehicles may be authorised by enumeration and description in terms of unladen weight. Trailers (which have no registration mark of their own) are authorised by enumeration and description, usually in terms of unladen weight. A and C licences are normally issued for a period of 5 years. The normal currency of B licences is 2 years. Short term licences may be issued for special purposes.

The Licensing Authorities
2.32 Carriers' licences are granted by Licensing Authorities appointed by the Minister of Transport. There are 11 Licensing Authorities, one for each of the 11 Traffic Areas into which Great Britain is divided. The Licensing Authority is also the Chairman of Traffic Commissioners, who administer the licensing system for buses and coaches. The functions of a Licensing Authority may also be exercised by a deputy appointed by the Minister.

2.33 Each Licensing Authority has a permanent office in his Area with a staff provided by the Ministry of Transport. This staff includes the Vehicle and Traffic Examiners who, in co-operation with the police, are responsible for enforcing the law on fitness of vehicles, on carriers' licensing and on drivers' hours and records. Fees are charged for carriers' licences to cover the costs of these offices.

Criteria for Grant of Licences
2.34 A Licensing Authority must grant any application for a C licence unless the applicant has previously had a carrier's licence revoked, suspended or curtailed for misbehaviour. He must grant a Contract A licence if he is satisfied that the vehicles concerned will be used exclusively for the purposes of an appropriate contract for a period of not less than 1 year, unless he is satisfied that in view of the applicant's previous conduct as a carrier of goods, he is not a fit person to hold a carriers' licence.
2.35 In dealing with an application relating to an A or B licence a Licensing Authority has full power in his discretion to grant, to grant in modified form, or to refuse, subject to the considerations and exceptions set out below. The Minister cannot intervene in his decision. The Licensing Authority must have regard to “the interests of the public generally including primarily those of persons requiring facilities for transport and secondarily those of persons providing facilities for transport”.

2.36 Licensing Authorities must publish all applications for new A or B licences, or for variations extending the scope of such licences. There must be a suitable opportunity for objections to be lodged (unless the application is of a trivial nature, is for a new licence to replace an existing licence in respect of a business which is being acquired by the applicant, or is for a licence for a period not exceeding 3 months which is required for an urgent purpose). Applications are published in a special journal issued by each Licensing Authority weekly or fortnightly and named “Applications and Decisions”.

2.37 Any person already providing facilities, by road or otherwise, for carriage of goods for hire or reward in the district concerned is entitled to lodge an objection to an application. But the Licensing Authority is not required to take account of an objection lodged by a B licence holder against an application for an A licence. An objection to be relevant under the terms of the Road Traffic Act must be made on one of the following grounds:

(a) that suitable transport facilities will, if the application is granted, be in excess of requirements;
(b) that any of the conditions of a carrier’s licence held by the applicant has not been complied with;
(c) that the applicant has suffered a conviction for an offence, or prohibition of the use of his vehicles, of the kind referred to in paragraphs 2.43 and 2.44 below.

2.38 Licensing Authorities have power to hold public inquiries to hear evidence from applicants and objectors, and invariably do so in contested cases. They may also do so in cases which are not contested but in which they wish to satisfy themselves of the bona fides of the applicant. Public inquiries are held at such places in the Traffic Area as may be convenient. Applicants are normally expected to provide evidence from prospective customers who have had difficulty in obtaining suitable transport facilities. The objectors may then try to show that they can provide facilities adequate to the witness’s needs. In considering whether existing transport facilities are suitable the Licensing Authority must have regard to their relative efficiency, reliability and adequacy, and all other relevant considerations including, to the extent he thinks proper, the charges made.

The Transport Tribunal

2.39 An applicant or an objector who is dissatisfied with the decision of the Licensing Authority can appeal to the Transport Tribunal.

2.40 The members of the Tribunal consist of the President who must be an experienced lawyer, and two members, one a person experienced in transport business and the other a person of experience in commercial affairs. Members are appointed by Her Majesty on the joint recommendation of the Lord Chancellor and the Minister of Transport.
2.41 Appeals under Part IV of the Road Traffic Act 1960 are heard by the Road Haulage Appeals Division of the Tribunal which may at the discretion of the President include persons nominated to a special panel by the Lord Chancellor, the Secretary of State for Scotland and the Minister of Transport. The Tribunal is empowered to hear appeals not only on points of principle, but also against the Licensing Authority’s exercise of his discretion. A further appeal on points of law is possible to the High Court. Appeals to the Tribunal are in practice commonplace, those to the High Court very rare.

Exemption from the System

2.42 Vehicles used for certain purposes* are exempt from the requirements of the licensing system. The concession of widest effect is that applying to use of “farmers’ vehicles”. A goods vehicle used by a farmer solely to convey the produce of, or articles required for the purposes of, his farm is classed as a “farmer’s goods vehicle” and is exempt, while used solely for these purposes, from the requirement to have any carrier’s licence. As a further exemption, which is unique, if the farmer does take out a C licence for his vehicle he may use it not only to carry his own goods but also to carry for hire or reward the goods of other farmers† in the same locality.

Revocation, Suspension and Curtailment of Carriers’ Licences

2.43 A Licensing Authority has power to revoke, suspend or curtail a licence that he has granted for:

(a) persistent or wilful breaches of the conditions of the licence;
(b) frequent convictions for poor maintenance, excessive speed, overloading etc. of the vehicles or for infringement of the law on drivers’ hours and records;
(c) frequent prohibitions of the use of vehicles found unserviceable by Vehicle Examiners (see paragraph 2.45 below);
(d) a single conviction or prohibition for an offence of a wilful or particularly dangerous nature.

*The Thirteenth Schedule to the Road Traffic Act 1960 and the Regulations adding to that Schedule may be loosely interpreted as freeing from the carriers’ licensing system:
(a) vehicles used by a farmer solely to carry his own produce or goods required for his farm;
(b) the drawing of trailers by private cars (other than for hire or reward);
(c) carriage of goods in buses, coaches and taxis;
(d) funerals;
(e) use by, or on behalf of local authorities of vehicles for sanitary and certain other specified purposes;
(f) police, fire brigade, ambulance, and other fire fighting and rescue vehicles including vehicles used to carry lifeboats;
(g) breakdown vehicles;
(h) vehicles used by the armed forces;
(i) vehicles on test;
(j) vehicles travelling limited distances along public roads between parts of private premises;
(k) vehicles used in road maintenance and repairs;
(l) vehicles used by dealers under a limited trade licence;
(m) carriage of samples by a commercial traveller or the tools of trade of the driver or passenger;
(n) carriage of instruments or apparatus by doctors, nurses and veterinary surgeons;
(o) tower wagons;
(p) pedestrian controlled vehicles;
(q) vehicles with built in machinery (e.g. mobile cranes, etc.).
†See paragraph 13.22 below.
2.44 A and B licences may also be revoked, suspended or curtailed if the holder of the licence:

(a) has made or procured to be made for the purposes of his application a statement of fact which was false or a statement of intention or expectation which has not been fulfilled;

(b) has placed other licence holders at an unfair disadvantage by persistently charging rates below the cost of providing his transport services.

If so requested by the licence holder, a Licensing Authority must hold a public inquiry before revoking, suspending or curtailing a licence. A licence holder has a right of appeal to the Transport Tribunal in respect of any revocation, suspension or curtailment of his licence.

Prohibition of Unfit Goods Vehicles

2.45 Licensing Authorities have a general responsibility for supervising the roadworthiness of goods vehicles. For this purpose they have the assistance of Vehicle Examiners appointed by the Minister. Vehicle Examiners have power to inspect goods vehicles whether or not authorised under a carriers' licence. If the vehicle appears unfit for service or likely to become so, the Examiner may prohibit its use for carriage of goods either immediately or with delayed effect. This only affects the use of the vehicle when loaded. The Examiner has no power to prevent an unfit vehicle being driven away unloaded. He may remove the prohibition when satisfied that the necessary repairs have been made. A person aggrieved by the refusal of the Examiner to remove a prohibition can apply to a Licensing Authority to have the vehicle examined by an Area Mechanical Engineer, who is a professionally qualified official senior to the Vehicle Examiner. If still dissatisfied an aggrieved operator can appeal to the Minister.

Drivers' Hours and Records

2.46 By Section 73 of the Road Traffic Act 1960 (and formerly by Section 19 of the Road Traffic Act 1930) the periods of duty of a driver of a commercial vehicle are limited for safety reasons. As an aid to enforcement of these provisions, drivers of vehicles authorised under carriers’ licences must keep records of their hours of work and of journeys made. Licence holders are required to ensure that such records are made out, and to hold them for a period for inspection by the staffs of the Licensing Authorities.

2.47 There are exemptions from this requirement. Drivers of C licensed vehicles weighing no more than 16 cwt. unladen are not required to keep records if the vehicle is used only on journeys within 5 miles of the place where it is normally kept. There are also exemptions for vehicles used in agriculture on journeys within 25 miles of base and for vehicles used by travelling showmen on journeys of less than 50 miles.

Case Law

2.48 The preceding paragraphs describe the present licensing system as it is laid down in the Road Traffic Act. In statutory form the system differs very little from that originally introduced in 1933. But in the course of 30 years the licensing system has evolved much case law and custom. The development of the system has been much influenced by the decisions of the Transport Tribunal.
and its predecessor bodies over the years. These bodies have adopted a legalistic approach and have tended to decide appeals by fairly close reference to precedents. As a result Licensing Authorities have also had to consult precedents before giving decisions. This has led to the growth of a system of case law of no little complexity. It is interesting to note that the Salter Report contemplated the issue of instructions to the Licensing Authorities by the Minister* and considered it of great importance that even the appeals procedure should be so designed to make the employment of Counsel unnecessary and unsuitable†. The hope was expressed by the Conference that as in the case of the Workmen's Compensation Act the system would be run without the intervention of lawyers.

2.49 Because of the developed intricacies of the system, it is not always easy for hauliers to be sure where they stand. To guard against complications which can be fatal to an application, it is usually necessary to take legal advice, and it is normal for applicants and objectors to be legally represented at public inquiries. (But legal representation is not compulsory and Licensing Authorities go out of their way to see that an applicant putting his own case has a fair hearing). Every aspect of the application may attract the complexities of case law—the type of licence which should be obtained for particular types of work, the kind of evidence which applicants and objectors are expected to bring in particular kinds of case, the statement of intention which must be made in an application for an A licence, and the reasons for which a licence may be suspended or revoked—are all subject to argument by precedent and reference to case law.

Normal User

2.50 The most important development in the licensing system since it was set up concerns the "normal user" of the A licence. This licence was apparently conceived originally as giving freedom to carry any kind of goods anywhere in the country. But to consider the need for new licences in relation to existing facilities, Licensing Authorities had to ask what work an applicant for a licence intended to do. The 1953 Transport Act tightened this (perhaps inevitable) control by empowering Licensing Authorities to revoke or suspend a licence if a statement of intention made in the application was not fulfilled. The logic was inexorable, but the result has been that a haulier may lose his licence if he does a substantial amount of work outside the terms of his original declaration of normal user. Thus in effect the A licence "normal user", declared on the application for the licence, becomes a condition which curtails the freedom of the holder. An A licence haulier with a narrow "normal user" may even be more confined in his operations than the holder of a B licence with wide conditions.

2.51 The tendency for A and B licences to grow more alike has been enhanced by the practice of granting B licences to hauliers who have no other business. The B licence seems originally to have been intended to meet the needs of the trader who wished both to carry his own goods and also to operate as a haulier in a limited way as an adjunct to his main trade. But the difficulty of obtaining a new A licence in face of the objections of the established operators has encouraged hauliers and would-be hauliers to apply for a B licence, since objections can often be avoided or reduced by agreement to accept strict conditions.

†Ibid. paragraph 111F.
Road-Rail Negotiating Committees

2.52 There is in each Traffic Area an unofficial body known as the Road-Rail Negotiating Committee. This consists of representatives of British Railways and certain organised road hauliers. Committees invite applicants for A and B licences to meet them to discuss the scope of their applications and what can be done to secure the withdrawal of objections lodged against them. Applicants need not appear before the Committees, which have no official status. Licensing Authorities are not bound to accept any settlement negotiated in this way. The Committees often succeed, however, in getting the applicants to clarify or reduce the scope of their applications and hence in persuading the objectors to withdraw their objections.

Entry to the Road Haulage Industry

2.53 In practice the volume of objection by existing licensed operators and by the railways seems to have made it very difficult for a new entrant to road haulage to obtain an A licence. B licences are somewhat easier to obtain. We have heard that most new-comers gain entry to the industry by what are described as “backdoor” methods. They obtain (as of right) a Contract A licence to carry goods exclusively for one customer. After a period they apply for a full A licence, relying on the work they have been doing for their one customer as their proof of need. Since they have no trading or manufacturing business of their own for which they might need to use the vehicle, they claim that they should have an A rather than a B licence.

2.54 Another way into the industry is through the right of manufacturers or traders to a “C-hiring” margin. This entitles the manufacturer or trader to use hired vehicles as well as his own vehicles up to a number specified in his licence. This right is useful to manufacturers and traders who need to employ a fluctuating number of vehicles or who for any other reason prefer not to own vehicles over which they need from time to time to have full control. But we have been told that the hirer can operate what is in effect a haulage business by hiring out his vehicles to manufacturers and traders, sometimes the same vehicle to several different users on a day to day basis. The manufacturer or trader is entitled only to hire vehicles as chattels and must employ his own drivers; but this requirement is sometimes evaded by taking the hirer’s drivers as a matter of form on to the manufacturer’s or trader’s pay-roll. Eventually the work done through legal C-hiring arrangements may be used as evidence of customer needs in an A or B licence application.

Summary and Conclusions

2.55 To sum up, the present system of licensing was introduced in 1933 to implement fairly closely the recommendations of the Salter Conference to deal with what the Conference regarded as the evils of excessive competition. Despite considerable changes in basic circumstances, the system has endured for over 30 years without major amendment, though it has developed an intricate system of case law which has made it much more complex and legal in flavour than was perhaps intended by its originators. The distinctions between the classes of licence have become considerably blurred. The system is now an elaborate process of regulation of what a lorry operator may carry.
CHAPTER 3

Road Transport of Goods in Great Britain Today

The Vehicle Fleet—Sizes, Numbers and Licences

3.1 According to Ministry of Transport statistics*, there are now 1,476,000 goods vehicles (out of a total road motor vehicle population of 11,400,000) operating under carriers’ licences in this country. 929,000 of these weigh under 2 tons unladen, and are mainly what are generally recognised as light vans. 225,000 weigh between 2 and 3 tons unladen, and form an intermediate class. Over 3 tons unladen, the lorry is what the layman would call “heavy”; there are 322,000 of them. In the “heavy” class, the number in each size range goes down sharply as the size increases. Thus there are:

- 244,000 of 3–5 tons unladen weight
- 61,000 of 5–8 tons unladen weight
- 17,000 of over 8 tons unladen weight.

3.2 The 322,000 heavy lorries, usually carrying larger loads for longer distances, carry out over 80% of the work done (measured in ton/mileage).† On the same basis, 929,000 vehicles in the light class do less than 6% of the total work. In other words, the smaller vehicles, though numerous and useful at their own tasks, contribute very little to the main flows of goods about the country. For longer journeys (i.e. over say 100 miles) the contribution of the light vehicle is negligible (roughly 1% of the ton/mileage moving this distance).

3.3 The 929,000 light vehicles are almost wholly (98%) under C licence, carrying goods in connection with the main trading, manufacturing or service businesses of their owners. Of the 225,000 in the intermediate class, roughly 75% are also C licensed. Of the heavy class, about 60% are under C licence. The remainder (57,000 intermediate and 125,000 heavy) are engaged, under A, Contract A and B licence, primarily on haulage work for others.

The Operators’ Fleets—Sizes and Licences

3.4 In the hire or reward field the size of an operator’s fleet varies widely, with a general tendency to small units including a significant number of single-vehicle units.

3.5 The nationally-owned fleets of the Transport Holding Company (i.e. the British Road Services group) with some 12,000 licensed haulage vehicles, and British Railways with the same number of licensed haulage vehicles, are exceptional in size.‡ British Road Services Limited, the general haulage part of the

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*See Appendix B (ii), Table 6.
†See Appendix B (i), Tables 25 and 26.
‡B.R.S. own about 16,000 vehicles, and British Railways about 14,000. But not all are currently licensed.
Transport Holding Company’s fleet, is far and away the largest trunk haulage unit in the country. The work of the British Railways fleet is primarily collection and delivery of goods whose trunk haul is by rail, and the vehicles used are often specialised for the purpose. The remainder of the haulage industry is generally organised in company fleets of at most about 150 vehicles. In recent years, however, there has been a development of larger groups, through the acquisition by holding companies of other haulage companies. The acquired companies are then left a high degree of independence in the running of their day to day affairs. No great pressure is apparently put on them to seek to integrate the running of their lorries with those of other companies in the group. The grouping process has so far produced only a handful of really large units, with a total vehicle strength for each group of from 500 to 3,000 vehicles.

3.6 The distribution of haulage lorries by fleet size is as follows:*  
34% of the total vehicle strength is run by operators of 5 vehicles or less;  
44% is in fleets of 6–50 vehicles;  
22% is in fleets of over 50 vehicles (made up of 5¼% British Road Services,  
5½% British Railways and 11½% others).

3.7 The size of fleet of any one C operator varies widely from one vehicle to several thousand. We understand that an analysis by your Department of heavy C licensed vehicles comparable with that for hauliers will be available later this year. All that can at present be said with confidence is that a large number of the light vans running under C licences are those of the small retailers each with only one or two vehicles in use. At the other end of the scale, there is also a number of fleets in the very large class, most of them owned by major industrial concerns known throughout the country.

The Organisation of the Market for Haulage Services

3.8 There is no deliberately organised and clearly defined road haulage “market”. But many hauliers in conjunction with their haulage business operate to greater or lesser extent as clearing houses for traffic, sometimes subcontracting and sometimes only acting as brokers. Organisations functioning solely as clearing houses exist up and down the country, but their number is small in relation to the traffic and by and large they seem to work independently of one another.

3.9 This absence of a consciously integrated and extensive network of clearing houses seems surprising in the light of the important effect a return load can have on efficient and economic use of vehicles and therefore on profitability. We think there are a number of reasons. The most important is that in a small country like ours, the lorry’s journey is usually short.† The lorry may well take less time to get back to base than is needed to seek out and take aboard a return load. Where this is so, it may well be better for the operator to get his lorry back to base to get on with the next outward job, than to have it return laden but later. Secondly, the regular consignor of traffic usually prefers to know the carrier to whom he is entrusting his goods, rather than to put these goods on the first

*See Appendix B (iii), Table 2.  
†Your Department’s statistics show that over 90% of journeys by heavy lorries are under 100 miles and about 80% of journeys by heavy vehicles are under 50 miles. See Appendix B (i), Tables 21 and 22.
lorry "going that way". (We heard much evidence of the damage which a
driver or carrier inexperienced in a particular commodity can do through
ignorance. There is also the fear of loss of valuable goods through robbery).
Thirdly, hauliers build up their own ad hoc arrangements for tapping possible
sources of readily available return traffic.

3.10 But whatever the reason, we found no widespread sense of need for
specialised market intermediaries or market institutions.

Competition in Road Haulage

3.11 Within the framework of quantity control by licensing, the degree of
competition varies in the different parts of the road haulage industry. In some
parts e.g. tipper work, competition in rates is intense. In other parts of the in­
dustry competition is less. Sometimes this is so because the number of haulage
firms is limited by the special requirements of the particular traffic. The larger
operators may have advantages over smaller competitors because, as we heard
in evidence, a consignor handling large flows of traffic finds it uneconomical to
deal with a multitude of small hauliers. In such circumstances competition is
likely to be limited, regardless of whether or not there is quantity control by
licensing. However, in general competition in road haulage seems to be strong.
We understand that the Road Haulage Association, the principal organisation
of road hauliers, has at times been unable to secure the implementation of
recommended increases in freight charges even when there have been general
increases in operating costs. Nevertheless the support of organised and individual
hauliers for the licensing system suggests at least in part that this system pro­
vides some real protection of established hauliers from the full force of
competition.

Operations of Road Goods Transport

3.12 It is perhaps astonishing to find that there was until recent years practi­
cally no information about the operation of road transport of goods. But latterly
much useful statistical work has been done in this field by your Department. The
resultant publications* provide a mine of detailed information covering many
aspects of the industry. This information has been of great help to us and we
have drawn heavily on it. It is already available in published form and for
convenience we reproduce extracts from it at Appendix B. So in the following
paragraphs we do not need to present more than the most important features on
the present operations of road transport of goods.

3.13 The lorry is now the principal carrier of goods in this country. 80%† of
the tonnage and 55%‡ of the ton mileage is by road. The difference in these

Final Results Part I.
Final Results Commodity Analysis.
Provisional Results.
Final Results, Part I, Table (v), Page 8.
‡Ibid, Page 7.
figures is explained by the greater average lengths of haul by rail or coastal shipping. The average length of haul by road is about 25 miles, by rail 70 miles (for all traffic) and 135 miles (for general merchandise), and by coastal shipping 200 miles (for oil) and 270 miles (for coal)*. The figures of the road transport share in the total give a misleading impression, unless it is remembered that a very large number of short or very short hauls are carried out by road which is the only possible means of transport for them. A more useful comparison is perhaps the shares of long distance transport—i.e. over 100 miles. The estimate here is that road transport accounts for about 40%, rail 30% and coastal shipping 30% of total ton mileages.

3.14 Of the work (ton miles) by heavy lorries, somewhat under half (43%) is in C licensed vehicles. This minority share of the work, by what is the major part of the heavy fleet (paragraph 3.3 above) is explained by the shorter average haul by C licensed vehicles. The following table shows the position:†

<table>
<thead>
<tr>
<th>Journeys</th>
<th>Proportion of Work</th>
</tr>
</thead>
<tbody>
<tr>
<td>Length (miles)</td>
<td>Heavy C</td>
</tr>
<tr>
<td>Under 50</td>
<td>45%</td>
</tr>
<tr>
<td>50-99</td>
<td>25%</td>
</tr>
<tr>
<td>100 and over</td>
<td>30%</td>
</tr>
</tbody>
</table>

3.15 C licence work also differs from that of A and B vehicles because of the high proportion of journeys where many part loads are picked up or set down en route. Journeys by hauliers are primarily of the type where the same goods are carried from end to end of the journey.

3.16 A large proportion of the C licence fleet is in the distributive trades, the building and construction industry and the food, drink and tobacco industries. These trades engage nearly 60%‡ of the heavy C licensed vehicles.

**The Trend from Rail to Road**

3.17 Much has been said in recent years about the “swing” to road transport. But the use of this term may be misleading. There is no doubt that the share of road transport has increased greatly relative to that of rail.§ But the growth of trades or industries for which road transport has proved to be specially suitable has been fairly high, compared with that of the industries for which rail has special advantages. This growth may account for more of the apparent total “swing” than any actual transfer of custom from rail to road. For example, in the main rail-using industries, mining output \( \Delta \) fell by 10% between 1952 and 1962 and iron and steel output rose by only 13% (and was accompanied by developments which reduced that industry’s demands for transport in relation

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*Distances for coastal shipping are from origin to destination by inland route, not by sea. The figures are thus comparable with those for road and rail.
†See Appendix B (i), Tables 25 and 26
§See Appendix B (i), Tables (i) and (vi).
||See Appendix B (v), Table (vii).
to production). In the same period the output of predominantly road-using industries like the manufacture of food, drink and tobacco, and the construction industries, increased by 30–40%.

3.18 We do not know to what extent the same situation—differences in rates of growth or decline of predominantly rail-using as against predominantly road-using industries—applies more widely to the transport of general merchandise. When coal and mineral traffics and iron and steel products are excluded, the remaining rail general merchandise traffic has in fact declined by some 25% over the last ten years.

3.19 All in all, it seems fairly clear that a substantial part of the fall in the total volume of rail traffic arises from decline in the total transport needs of traditional rail users. The growth in road transport equally owes much to the development of industries for whose work road is specially suitable. In the overall change which has taken place there must have been an element of transfer of traffic from rail to road, but this element is probably a minor part of the whole.

3.20 A contributing factor may be that transfers of traffic once made tend to be permanent. If factories have been sited or trading estates laid out on the basis of road service, goods traffic will tend to continue to go by road. It may be difficult or even impossible in these cases to send any goods economically by rail, however much the general standard of rail service is improved.

Load Factors

3.21 There are no statistics available from which load factors (i.e. the amount carried in relation to the transport capacity provided) for road goods transport can be precisely calculated. The nearest approach to a calculation is by way of your Department’s “Survey of Road Goods Transport 1962”, which gives figures of the proportion of empty mileage run by various categories of vehicle on different types of journey. On intermediate journeys, on which goods were picked up and set down at several points, 17% of the total mileage was run empty. On end-to-end journeys 36% of the miles were run empty. The average mileage run empty on end-to-end journeys was 27% for A licensed vehicles, 41% for Contract A vehicles, 45% for B licensed vehicles and 38% for C licensed vehicles. The lower figure of A as compared to Contract A and C vehicles was confined to heavy vehicles.

3.22 The survey showed that substantial empty running occurs with all but the heavier A licensed vehicles, and that the degree of empty running tends to be greater for those vehicles whose freedom is more restricted by the terms of their licence. The degree of empty running moreover is greater than the figures at first show. For instance, some end-to-end journeys defined as loaded are made with only small part loads. If the vehicle is large there may be just as much unused capacity on such journeys as when a somewhat smaller vehicle runs empty. This problem of measurement was recognised by your Department in its 1952 and 1958 surveys, and figures of the number of journeys more than and less than half loaded were then included. We understand however that these figures were regarded as very unreliable and that they were discontinued because of the

*See Appendix B (i), Table (x).
difficulty of obtaining an adequate measure of the degree to which a vehicle is loaded in any particular case. The results tended to show that a fairly large proportion of "loaded" mileage was in fact with the vehicle more than half empty in the case of C licensed and the smaller A and B licensed vehicles, while the larger A and B vehicles generally operated either fairly fully loaded or empty.

3.23 The difficulties of measurement in this field are clear. With light bulky loads a vehicle may be full before it is carrying anything like the weight it could. With dense loads like steel sheet the maximum weight may be reached while much capacity by volume remains. Some goods can be stacked, others cannot. Some can be mixed with other goods, others demand sole use of the vehicle.

3.24 We do not however regard load factor as a useful and reliable measure of efficiency. A high load factor might be obtained at the expense of the efficient use of vehicles on their main function, or of a poorer service to the customer and disproportionately high costs in other operations. (It was argued before us that even if he were free to carry return loads for others, it would normally suit a C licence operator better to get his vehicle back to base quickly, ready for a new journey, than to have it search around for return loads.) It is hard to see how the circular delivery trip or the highly specialist vehicle characteristic of much C licence work can ever show a high load factor—the nature of the job just does not allow it.

Customer Satisfaction

3.25 In an enquiry into the system of control applying to an industry, it is relevant to consider whether that industry seems to be failing to satisfy its customers.

3.26 In all the evidence put to us, there was no general criticism by users of the services provided by road hauliers. In weighing this evidence, we must of course have regard to the relative ease with which those dissatisfied with the service from hauliers might have gone over to their own C licence vehicles. There is also the general inarticulateness of consumers to be taken into account. Nevertheless, it is appropriate to record that we have had no evidence from users of dissatisfaction with the road haulage industry, and that no specific complaints were made to us. (What complaint there was, and fairly widely and persistently at that, was from those who felt that the physical presence of the road goods vehicle was unwelcome, not that it gave a bad service either to its user or to those who benefited directly or indirectly from the work it had done.)

Bankruptcy in the Road Haulage Industry

3.27 A feature of the road haulage industry to which several references were made in evidence to us was the incidence of bankruptcy. Our attention was invited to the figures published by the Board of Trade, showing that in 1962 the number of road haulage contractors who failed in bankruptcy was exceeded only by the figure for builders. In the previous year the figures were again high, exceeded only by builders once more and the hardware and electrical retailers. We were invited to take account of these facts as showing the tendency to in-
stability in road haulage, even licensed as it was. We were also invited to draw the further inference that licensing controls should be tightened, to reduce the number of bankruptcies and the instability explicitly or implicitly attributed to it.

3.28 While not in any way under-estimating the effects of bankruptcy, we would not necessarily accept the premise that it was the duty of government so to arrange matters that bankruptcy in any particular occupation became extremely unlikely. Few would think it wrong that men of enterprise should be entitled to set out on a business venture which has financial risks. If there is risk, there will always from time to time be failure. Whether this is socially serious or not must be judged against the scale of each individual failure and by the number of failures. In any one industry, the number of failures which might be significant must depend in turn on how many there are engaged in that industry. If the number of concerns in the industry is large, the total number of bankruptcies might be quite high without necessarily giving cause for general alarm. This would be particularly true if the concerns were mainly small.

3.29 We thought it might be useful to see whether further research into the published figures of bankruptcy in road haulage would give any guide to the kind of firm which appeared to be most liable to fail. With the co-operation of the Board of Trade and of the Licensing Authorities, to whom we are much indebted, we sought to trace the carriers’ licensing history of the road haulage contractors who according to the Board of Trade’s returns had failed in the last three years. Our picture was bound to be incomplete, since it included neither receiverships nor liquidations of companies (which were left out because of the difficulty of distinguishing voluntary from compulsory liquidation). Moreover, bankruptcy could not always be ascribed to business failure—debts in private life might be to blame. (These cases would however be shown according to the occupation of the bankrupt, irrelevant though this might be). Nevertheless it seemed that we might be able to throw more light on the subject than previous information had allowed.

3.30 The first and most important fact which emerged from our investigations was that more than half of those classified as road haulage contractors in the Board of Trade’s figures were not holders of carriers’ licences. Many were completely unknown to the Licensing Authorities; others no longer held licences at the time of bankruptcy, or holding only C licences, almost certainly failed in their main line of business, and not because of transport factors. Counting only licensed hauliers, there were roughly 100 failures in each of years 1961–63 out of a total of roughly 46,000 A and B licensed operators in this industry. Bearing in mind that number of “private life” bankruptcies inevitably included in the figures, and the total number of hauliers in the country we do not find in these figures any great cause for concern. Indeed, a significantly lower rate might even be taken as evidence of the degree of protection afforded by the licensing system.

3.31 The number of failures by licensed hauliers would have placed them seventh, eighth and tenth respectively in the order of occupations with the most failures, as against third, second and fourth according to the published classification.
3.32 The 293 A and B licence holders who went bankrupt in the years 1961–63 operated a total of 900 vehicles or, on an annual basis, about 0.2% of the total haulage fleet operating in each year. 64% of the bankrupts had only one or two vehicles and only 4% had fleets of more than 10 vehicles. So failure by a larger haulage firm is clearly rare.

3.33 Analysis of the 1961–63 failures by category of carrier’s licence showed that 56% of the vehicles were specified in A contract licences, 31% in B licences, and 13% in A licences. The higher proportion of bankrupts operating under Contract A licences and B might seem to support two possible explanations. As the rate of failure goes up when the licence is in one of the categories which is easier to obtain, it might therefore seem that those with less real prospect of survival make their way in by the easiest road. On the other hand, as the failure rate is highest when the licence conditions are most restrictive, it might seem that the severity of restriction is a contributory cause of the higher failure rate. We cannot draw a firm conclusion from the evidence here.

3.34 Another fact which emerged from the Committee’s investigations was that most bankrupt licensed hauliers had not been in that business long. Only 32% of those failing in 1961–63 had been operating for more than five years and only 1% had held licences before the war.

3.35 70% of the A licensed vehicles of the bankrupts were authorised to operate over long distances, including 38% with a “general goods” normal user. Only 11% had short distance “general goods” normal user, so it does not appear that bankrupts holding A licences suffered from particularly restrictive normal user.

3.36 Failures under Contract A and B licences show a clearer pattern. A large number of bankrupts worked in the tipper field. 55% of the bankrupt Contract A licence holders’ vehicles were tippers (which form 35% of the national fleet of Contract A vehicles), and 70% of the B licensed vehicles involved in bankruptcy were tippers (which form 40% of the national fleet of B vehicles). As might be expected these tippers were engaged largely in working for the construction industry and in the carriage of solid fuel. These are fields where the demand varies quite widely from time to time, and this may well have had a bearing.

3.37 Our investigations of bankruptcies suggested that the vulnerability of the road haulier to bankruptcy was not as great as many people thought, that those who failed were nearly always in a small way of business and not long established, and that the nature and scale of bankruptcy in the industry were not such that any special measures by Government were called for on that account.

Summary

3.38 (i) Of nearly 1½ million goods vehicles, only 322,000 are in the heavy classes which do 80% of the work. Nearly all the light vehicles are under C licence, as are 60% of the heavy ones. Fleet sizes vary widely, but most are of small or medium size (i.e. of under 50 vehicles).

(ii) There is no organised market for haulage services, but no evidence that this is a serious defect.
(iii) In most sections of the industry competition is strong and sometimes intense.

(iv) Road transport carries 80% of the tonnage of goods moved in the country and is responsible for 55% of the ton mileage. Of the ton mileage done by heavy lorries, 43% is in C vehicles.

(v) The growth of the share of road transport in total inland transport is probably due mainly to the faster growth in recent years of those industries for which road transport is particularly suitable, than that of those industries for which rail is particularly suitable.

(vi) Load factors are hard to measure, may be expected to vary widely, and do not provide a useful index of efficiency.

(vii) There were no complaints to us by users about the services provided by road hauliers.

(viii) The incidence of bankruptcy in road haulage is not high in relation to the number of firms in the industry.
CHAPTER 4

Regulation of Road Haulage in Other Countries

4.1 In the preceding two chapters we have looked at the road haulage industry in Great Britain, and the history and operation of the licensing system used to control it. Before going further into the working and effects of licensing in this country we think it useful to examine the nature and aims of regulation of road haulage in other countries.

4.2 In nearly all advanced industrial countries road haulage is subject to a degree of regulation which is not generally found in other industries. However, both the extent of such regulation and the means by which it is applied vary from country to country and in recent years a number of governments have examined afresh the policies and principles behind such regulation.

4.3 We have relied in the main on information currently available from your Department and from other sources. As might be expected, there was much more material available to us about transport regulation in European countries than elsewhere. But as we did not formally take evidence on practice abroad, we do not purport to present more than a broad survey of some different methods of regulation of road transport of goods. We did make specific inquiries to supplement the available information on some points but we did not attempt to get much detailed evidence on foreign practice since we thought that the wide differences in conditions would make comparison between one country and another of limited value.

THE COMMON MARKET

4.4 We look first at the development of the common transport policy in the European Economic Community. Apart from the obvious significance of the Six as a group of some of the most important European countries, the Common Market includes our nearest neighbours, and it is between them and this country that most of our international road transport of goods flows. The Treaty of Rome which set up the European Economic Community does not lay down any specific plan or policy for transport. It merely states that the member countries shall adopt a common transport policy and forbids discrimination in transport charges between different countries or different industries. The absence of specific provisions for transport in the Treaty of Rome was mainly the result of the considerable differences of outlook among the six members of the community. These differences have so far held up any substantial measure of agreement on a common transport policy.

National Transport Policies

4.5 In many ways European experience of the development of goods transport has been similar to that of this country. In all cases railway systems were
built in the 19th century when they were subject to stringent public regulation in order to control exploitation of their monopoly position. In every case the railways have been subject to very severe competition from road transport since the 1930's and their share of freight transport has been declining. As in Britain, the State has had a substantial financial interest in the railway system. But the maintenance of obligations on the railways to provide services at controlled charges, often below the actual cost of carrying goods, has been regarded as an important safeguard for many industries which are dependent on the railways. The use of the railways to pursue social aims such as the encouragement of under-developed regions like Southern Italy by the provision of many passenger services at sub-standard fares is a prominent feature of European railway systems. Perhaps the most significant difference between the British situation and that among the Six is that several of these countries, notably the Netherlands, Belgium and Germany, have flourishing inland waterway networks which carry a very substantial part of inland freight traffic. In Germany and Belgium the three forms of transport—road, rail and inland waterways—are of approximately equal importance, while inland waterways are the major freight carrier in the Netherlands. The problems of inland transport policy among the Six are correspondingly more difficult. The closest parallel to British conditions is found in Italy, where inland waterways play an insignificant role and road transport carries a very much higher proportion of inland freight traffic than do the railways. In France on the other hand the railways are still the predominant freight carriers—partly because of extremely stringent control of long distance road transport.

4.6 There are no direct controls over own account transport in any of the Six though in Germany a special tax is levied on it. But some control over entry into the professional road haulage industry is practised in all of them. The extent to which the quantity of road haulage is seriously restricted varies very greatly. In France and Germany, central government decides the number of vehicles that provincial authorities may licence for long distance haulage. The "quotas" have been increased very little since before the war. Short distance road transport is also subject in some cases to quota restriction but the quotas are much more liberal. At the same time the French and German Governments exercise close control over the charges made for road haulage in the same way as railway rates are controlled. Indeed, in Germany the rate schedule for long distance road transport was until recently identical to the railway rate schedule. In France an exceedingly complicated form of rate control including provision for variation of rates within a "fork" of 30% was established in 1961.

4.7 In Italy and the Netherlands, although entry into the road haulage industry is subject to licensing, the system seems to be administered in a liberal fashion and not significantly to impede the growth of road transport. In the Netherlands, quite strict professional qualifications are demanded from applicants for licences who must have passed an examination on their knowledge of road transport law and practice. In the Netherlands too the railways have a much greater degree of commercial freedom than is usual in Europe and their freedom of charging is in practice only restricted by control of maximum rates.

*" Forked " tariffs stipulate maximum and minimum rates, the operator having freedom to charge as he thinks fit within these limits.
They have also been able to close down a substantial part of the system and are at present the only European railway system which is making a profit. We understand that Dutch policy is to leave the development of transport as far as possible to the operation of market forces. This is sharply opposed to the concept of a controlled transport market in which the State plays the role of co-ordinator, a concept which is principally expounded in France. Dutch policy is much influenced by the fact that road and waterway transport provide an important invisible export. It is therefore particularly important for the Netherlands that international transport should be as free as possible.

4.8 There have been some signs recently of a move away from the more restrictive forms of control. In Germany we understand that there is pressure for greater liberalisation and the long distance road transport quota was recently increased. The heavy taxation levied specifically on own account transport has also been substantially reduced. The most striking example of liberalisation has been in Belgium. Before 1960 professional haulage was licensed on a strict "proof of need" basis under which licences were generally refused if the railways wished to carry the goods in question. This was said to have caused the rapid expansion of own account transport at the expense of professional haulage. This development did not commend itself to the Belgian Government, and a new system of carriers' licensing was introduced by which licences were issued automatically to applicants with the requisite successful experience in a more limited field.

The Action Programme

4.9 In default of any common ground between the Six, the initiative in formulating proposals for the common transport policy fell almost entirely to the Commission whose "Action Programme for a Common Transport Policy" was put before the Council of Ministers in May 1962. They took the view that the common transport policy should not only contribute to the achievement of the general common market but should also aim at the organisation of the transport system at the community level.

4.10 For road haulage the "Action Programme" proposes that restrictions on entry into the industry should be relaxed and that bi-lateral quotas for international transport should gradually be replaced by a community quota which would entitle licensed hauliers to engage both in international transport and domestic transport in any member country. Quantitative control would be retained but should be operated in a flexible manner so that the supply of transport could be matched to the demand with a suitable margin for competition. The Commission suggest that the authority responsible for licensing should judge the need for increased capacity by reference to market indicators such as the profit margins obtaining in road haulage, delays experienced by users and the development of transport on own account.

4.11 At the same time the railways should be relieved of some of their more onerous public service obligations. In particular they should be permitted to abandon unprofitable lines or services or replace them with road transport except where there were particularly pressing reasons of public policy why such lines or services should be maintained. The railways should receive compensation for undertaking unprofitable services for reasons of public policy.
4.12 The most important proposal of the Action Programme for the regulation of transport is that rates for all forms of transport should be subject to control. Undertakings would be free to charge within the limits of a forked tariff drawn up by each form of transport and approved by the public authorities. The tariff's upper limit would be fixed so as to prevent the exploitation of a possible monopoly situation, the lower limit so as to cover the variable costs of the operation with the addition of a certain percentage of fixed costs. The Commission suggest that the width of the fork might vary between 10% and 30% but that there should be provision for exceptional rates outside the limits of the forked tariff to take account of special circumstances such as a long term contract which by ensuring greater regularity of traffic would enable costs to be markedly lower than usual.

4.13 The proposals of the E.E.C. Commission for the organisation of transport are obviously important. But the existence of widely differing transport policies in the Member States meant that any proposals had to have a strong element of compromise if they were to have any chance of being accepted. That the Common Market countries may adopt a transport policy involving some control of rates, and that the Commission accept the need for some quantitative limitation on entry into road transport, is not therefore necessarily a strong argument for accepting the same kind of control of road transport in this country.

UNITED STATES OF AMERICA

4.14 One of our number who was in the U.S.A. at the outset of our work took the opportunity to make a short but intensive study of the situation there. In this he received much help from the American authorities and various trade organisations, who provided much printed material as well. For this most valuable assistance we are indeed grateful.

4.15 We understand that the form of control envisaged by the E.E.C. Commission was influenced to some extent by practice in the U.S.A. The Federal Government exercises control only over inter-State transport; transport operations which are confined within the borders of a single State are subject solely to the jurisdiction of that State, (which may however be larger than the whole of Great Britain). The different geographical conditions in America, particularly the much greater distances to be traversed, have an appreciable affect on the pattern of transport. The railways are still the major freight carrier, carrying in 1962 43% by ton miles of inland goods transport; road transport carried 24%, inland waterways 16%, and pipe-lines 17%. The characteristic feature which distinguishes the United States from almost every other country is that its railway system is not owned by the State but is in the hands of a large number of private companies. Amalgamations of competing railroads are subject to official scrutiny and control. The railway system as a whole is still viable but many individual companies have run into severe difficulties as a result of competition from road transport.

*The Inter-State Commerce Commission*

4.16 Transport regulation in America developed in the 19th century in a similar way to that in Europe. When the railways were the only significant
long-distance freight carriers, and despite competitive railway building, it was necessary to protect users and the public generally from the monopolistic activities of the railroad companies. As a result federal control over railway rates developed with the setting up of the Inter-State Commerce Commission in 1887. The Motor Carrier Act of 1935 extended the control of the Commission to road transport.

4.17 Inter-State carriers for hire or reward must be licensed by the Inter-State Commerce Commission. To obtain a licence the applicant must prove "public convenience and necessity". Licences are issued in perpetuity. No restriction is placed on the number of lorries which may be operated by a licence holder. Conditions may be and generally are attached to the licence laying down the types of goods which may be carried and the routes or areas which may be served. We understand that no new licence has in fact been issued since the original issue on the introduction of the restrictions. In addition all carriers are obliged to file their rate schedules with the Commission which has the right to approve or reject them. Both carriers and users have the right to object to a proposed rate but it is generally competing carriers who in fact do so on the grounds that the rate does not cover the full costs of the operation. Individual carriers are free to propose any rate schedule they please but in practice road transport rates are determined by associations of carriers functioning as rate bureaux.

The Agricultural Sector

4.18 Certain classes of goods, particularly certain agricultural and fisheries products, are exempt from this system of control. This means that any carrier, whether haulier or own account operator, licensed or unlicensed, is entitled to carry these goods and may charge whatever rate he pleases. Road transport operations in the agricultural sector are therefore an example of road transport completely free of any government regulation beyond safety requirements, operating side by side with a highly regulated industry.

4.19 The agricultural exemption was included in the 1935 Motor Carrier Act under the influence of pressure from the farming industry. Farmers have consistently opposed any attempt to withdraw the exemption and it is clear that they believe that as a result of freedom from regulation they obtain better transport service at lower costs. The clearest evidence that rates are lower comes from the freeing from regulation of the transport of poultry and frozen fruit and vegetables, by interpretation in the courts in the early 1950's. We understand that road transport rates on poultry dropped by about one-third and rates on frozen foods by about one-fifth from their previous regulated levels. When regulation was restored to the carriage of frozen food, rates did not immediately increase again but some additional charges seem to have been levied. Studies by the Department of Agriculture have tended to confirm the view that rates for exempt products are lower than common carrier rates for similar services. The investigations of the Department of Agriculture suggest that rates tend to be relatively stable but that there is some variation because of seasonal fluctuations in demand. Similarly exempt carrier rates, determined by unrestricted competition, have not been accompanied by instability within the industry or by uneconomic operations and high rates of bankruptcy. And
while there is strong competition for the carriage of agricultural products we heard of no evidence that the standard of service had suffered as a result.

Present United States Policy

4.20 There does not appear to be any noticeable public demand for a drastic change of policy in the United States. There is some evidence, however, of dissatisfaction within Government circles with the present transport policy. In 1960 the Department of Commerce published the "Rationale of Federal Transportation Policy". This publication criticises the present methods of control on the grounds that they encourage the use of the form of transport which is in many cases not the most efficient for carriage of the particular goods. Control of rates has meant firstly, that the railroads are forced to charge uneconomically low rates for some products, and unnecessarily high rates for others, which they often lose to road competition; and secondly, that common carrier traffic in general is being eroded by the competition of private and exempt carriers. The "Rationale of Federal Transportation Policy" argues that ideally there should be no control over entry into the road haulage industry but suggests that this aim is impracticable in the circumstances and that more modest relaxations must be aimed at. The "Rationale" considers it important that charges should be more closely related to long-run marginal costs.

JAPAN, CEYLON AND AUSTRALIA

4.21 The general practice of almost all countries has been to impose some measure of control over the road transport of goods. In these circumstances the experience of such countries as did not apply close control could be significant. We understood that in Japan and Ceylon, and in Australia (for inter-state carriage) there was practically no control.

4.22 We did not find that experience in Japan or Ceylon was particularly relevant to our problem, because the basic conditions were so different from those in this country.

4.23 Conditions in Australia offered a closer though far from complete analogy to ours and we looked at experience there with some interest. Australia has been faced with the same transport problems as European countries. The railways, which are in general owned by the individual States, have been losing traffic to road competition and are making substantial losses. The position is aggravated by the fact that the State Railways were built to different gauges with the result that a great deal of long-distance transport involved transhipment at State borders. Transport statistics available from Australia are very limited but we understand that, for inter-State transport, coastal shipping is the prime mover carrying nearly 50% by ton-miles of goods transported; road transport carries just over 30% and rail just under 20%. The State Governments have all applied transport policies aimed at protecting their railways. This has been done either by licensing road haulage on a "proof of need" basis or by levying a surcharge on road transport beyond a certain distance. Until 1954 these restrictions applied to road transport between States as well as within State boundaries. But in that year a judgement of the Privy Council freed inter-State transport from all forms of restriction. Since then in Australia
as in the United States there has been a sector of the road transport industry operating free from specific controls, while the rest of the industry has continued to be subject to strict supervision by the public authorities.

4.24 Information we received from the Australian state transport authorities suggests that the initial result of the Privy Council judgement was very severe competition in inter-State transport. This resulted sometimes in uneconomically low rates and numerous bankruptcies. However more recently the industry has settled down and rates while still low are stable. Inter-State road haulage is considered to provide a satisfactory service. The high proportion of owner-drivers might be expected to suggest an industry in which new entry and failures occur frequently, but in fact their organisation into companies providing them with administrative, maintenance and load booking facilities has helped to stabilise the composition of the industry.

4.25 This picture of the inter-state road haulage industry was confirmed by an article by Mr. Stewart Joy in the July, 1964 issue of "Oxford Economic Papers". This article further suggests that the larger operators offering a more comprehensive service are comparatively little affected by competition from the small men. The intensive competition of the main inter-city routes is not found in country districts where the limited amount of traffic on offer and the importance of local knowledge means that a single haulier often has a virtual monopoly of the local traffic.

4.26 Experience of unregulated traffic in Australia tends to confirm the impression given by the agricultural sector in the United States. Conditions are of course not necessarily similar to those obtaining in this country. It does appear however that in those cases in which experience has been obtained of road transport operating under conditions of freedom the fears of those who think that this situation would result in chaos, danger and a reduced standard of service to the user have not been borne out, while they provide some evidence of the effect of greater competition in the reduction of rates.

SWEDEN

4.27 We have seen that most countries apply much stricter control to road transport than to other sectors of the economy. In paragraph 4.8 above we described some of the indications that policies within the Common Market were moving away from the more severe forms of restriction. A most interesting change of policy has taken place in Sweden, where a committee of experts was appointed in 1953 to review national transport policy. It published three reports during the years 1961 and 1962. The recommendations of the committee have been implemented by legislation passed at the end of 1963. Previously the railways were subject to the same kind of public service obligations as other European railways (comprising an obligation to run services, not to discriminate between users and to observe maximum rates fixed by the Government). Road transport for hire or reward was subject to a licensing system whereby the applicant had to demonstrate the need for his proposed service and existing carriers were able to object to his application. The object of the system was to secure the best division of transport between competing forms from the standpoint of the national economy.
4.28 The committee of experts found that the regulatory system did not achieve these aims and that the licensing of road transport had promoted the growth of monopolistic groups and given excessive encouragement to transport on own account. The railways were operating at a substantial deficit. The committee argued that the aims of transport policy might be achieved either by applying more drastic and sophisticated methods of control or by giving the various means of transport greater freedom to compete for the available traffic on commercial principles. The committee came down in favour of greater freedom. This was more in line with the position in other sectors of the economy. Experience had shown how difficult it was for the Government to determine by regulation the best division of traffic between competing forms of transport. The new legislation provides for the progressive relaxation of the licensing system for road transport and the final abolition in 1968 of the needs test. At the same time the railways will be relieved of their public service obligations and where, for reasons of national policy, they are required to maintain un­economic services, they will be reimbursed by the Government.

Conclusions on Overseas Regulation of Road Transport of Goods

4.29 In our investigations we have had to take account of the virtual unanimity of other industrial countries in applying restrictive controls to road transport. It is probably significant that nearly all these controls were introduced in the 1930’s under the influence of the slump and were probably also influenced by each other. We note, however, that more recently the movement has been away from the more highly restrictive forms of control. The only case we know of where a Government is proposing to tighten up its control of road transport is in Portugal where stronger controls over own-account traffic are proposed.

4.30 We were impressed in our survey of transport policies and practices abroad by the evidence that the absence of restrictions on capacity, routes and pricing did not in fact seem to lead to the fearful conditions foreseen by many who put views to us. The experience in America and Australia of the unregulated sectors of road transport here seemed to us to be of some significance, as did the views so painstakingly formed by the Swedish enquiry.

4.31 The other major impression left on us by our survey of what is currently done abroad is that there are many different circumstances affecting transport policy in different countries. This may help to explain the diversity of systems of control in force.
CHAPTER 5

Method of Approach

5.1 We come now to the main part of our task—the evaluation of the present system of licensing. It would have been attractive to set out our views here on a progressive basis—the role of licensing as seen by the Salter Conference; the translation of their ideas into statutory form; the performance of the system in achieving the purposes originally set for it; the adaptation of the system to changing needs and circumstances; the ways in which it now might be adapted; and the other means there might be for attaining policy objectives.

5.2 We found however that exposition on these lines cut across another and we think more important line of analysis—that is, the examination of licensing against the various aims of a system of regulation of road transport. Licensing is no end in itself, and its working cannot usefully be considered without first deciding its purposes. Once purposes are defined, licensing can be examined in the light of them.

5.3 We think the main possible objectives of government policy in regulating road transport of goods are:

(i) the promotion of the safety of the public;
(ii) the promotion of efficiency in road transport operations;
(iii) the reduction of any harmful effects of road transport on amenity and environment;
(iv) the promotion of increased use of available rail facilities for movement of goods;
(v) the reduction or control of congestion on the roads.

5.4 The safety of the public: Once above the lightest class of goods vehicle, the laden weight of lorries rises sharply. In this country the 174,500* in the 3-4 ton unladen weight class can by law run, and sometimes do so, at loaded weights over 10 tons; while the heaviest lorries in the ordinary range i.e. up to say 9 tons unladen will weigh as much as 28 tons laden. The speeds at which these vehicles operate continue to rise steadily. This increase in speed and the heavier weights of goods vehicles are inevitable and indeed proper steps along the path of technical progress. In a competitive world, we cannot afford to deny ourselves the considerable benefits that come from them. But the combination of weight and speed produces vehicles which are capable of doing a great deal of harm to life, limb and property. Government has a high responsibility therefore for seeing that heavy lorries are designed and maintained, driven and operated in such a way that they are as safe on the road as they can reasonably be made, having in mind the need for efficiency as well.

5.5 The efficiency of road transport: Road transport costs are a significant part of the cost of producing and distributing almost all goods. In effect, we devote nearly a tenth of our national effort to moving goods by road, rail and coastal

*See Appendix B (ii), Table 9.
shipping*. This is a heavy call on our national resources. Anything that can be done by government to increase the efficiency of the transport system, of which road transport is by far the preponderant part in the movement of goods, will have wide beneficial effects, not only in our export trade but also domestically.

5.6 Impact on amenity and environment: There can be few in this country who do not make some personal use daily of a main road. It is on such roads that heavy lorries largely run. There are now roughly half a million such lorries, each usually on the road every working day. So the heavy lorry can hardly fail to make its presence widely felt; and the effect of this presence can be a nuisance on a large scale. Its total effect on our environment will depend to no small extent on how far the lorry is noisy, smelly or an eyesore. Government control can bear on all these aspects.

5.7 Use of the railways: The country's past capital expenditure in railways has been heavy, both originally by private investors and more recently in massive modernisation with funds provided nationally. This investment has produced a system of transport with a capacity to carry a larger share than at present of the country's goods. There would be some social advantage in terms of safety, amenity and road congestion, if this spare capacity were used more fully. There would, on the other hand, usually be an uneconomic penalty to pay for the use of a means of transport which the individual user had decided was not the best to meet his needs.

5.8 Road Congestion: Rapid growth of the road vehicle population since 1945 has put a heavy strain on the road system. Large increases in the road programme have met the situation on some routes and at many of the worst points; but the tide of vehicles goes on rising apace, and forecasts are that it still has a long way to go†. The rate and extent of its progress seem to be likely to be more than any feasible road programme can wholly meet in the foreseeable future. The prospect of widespread congestion, particularly in towns, presents a formidable problem now and in the years ahead. It is a problem which it must be primarily for government to tackle.

Co-ordination

5.9 It may at first seem strange that we do not include in our list of objectives the co-ordination of transport. The Salter Conference had this much in mind, and the matter has continued to figure prominently in discussion of transport policy ever since. It could be argued therefore that it should be regarded as perhaps the

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*The value of the total output of goods produced by the economy as a whole (including imports) is shown in the National Income and Expenditure Blue Book. For 1962 the figure for agriculture, mining, manufacturing, construction industries, and the distributive trades totalled about £24,000m. (at market price). It is estimated that total expenditure on the transport of goods by road, rail and coastal shipping in 1962 was about £2,100m. This figure includes all the inland transport expenses of farmers, manufacturers, building, mining etc. industries, and of wholesale and retail distributors. The expenditure on road transport alone is estimated to be £1,700m. The source of this figure is Ministry of Transport Statistical Paper No. 3 Highway Statistics 1963, H M S O (A detailed explanation of the basis for the estimate is given in the final paragraph of the introduction to that publication). An estimate of the expenditure on transport between the ports of Great Britain by coastal shipping is not at present available, but since coastal shipping performs about two thirds the amount of transport performed by the railways and is mainly engaged in the carriage of low priced bulk commodities, it is likely that expenditure on this form of transport is in the region of £100-£150m. Movements of goods by other forms of inland transport—waterways, pipelines and airways, are relatively unimportant and the expenditure on these forms of transport probably amounts only to £2 or £3m.

†The Transport Needs of Great Britain in the Next Twenty Years (Hall Report).
main aim of government in regulating road transport of goods, and that it was up to us to consider the question.

5.10 However, co-ordination did not seem to us to be an aim separate and distinct from those we have set out. Rather, the term "co-ordination" refers to a policy embracing in varying degrees according to individual emphasis the several policy aims we have considered. Although there is no general public consensus, in practice co-ordination is often taken to mean largely a policy of influencing the distribution of traffic towards the greater use of rail. This particular aim of policy is one of the five set out in this Chapter, and examined in detail in Chapter 9.

5.11 We therefore have nothing to say explicitly about co-ordination as such. We do not think we were called upon to do so. The balancing of the various possible objectives in transport policy is a matter for government decision. Our enquiries inevitably covered but part of the complex of circumstances and measures bearing on transport. The appropriateness of our decision not to consider co-ordination separately and explicitly is indeed confirmed by your appointment of Lord Hinton to make a special study of co-ordination.

Public Attitudes to the Policy Objectives

5.12 We believe that there will be general agreement with the proposition that this country cannot afford to have any but a highly efficient transport system, and that the efficiency of its transport system can have a profound effect on such important matters as the performance of its industries in world markets and the success of domestic policies of regional development. There will probably be little quarrel with the proposition that the pursuit of efficiency in transport must nevertheless have regard to the maintenance of high standards of safety to the public and those engaged in transport, and to the effect of transport development on amenity and environment. To the extent that the reduction of road congestion enhances the efficiency of road transport and curbs its harmful effects on environment, this objective would also find general favour.

5.13 On the other hand, the remaining objective—the greater use of rail—is highly controversial. The social advantages of fewer lorries are clear to all. The economic penalties of not using road transport may apply as universally, but often in ways not immediately obvious to the public. An extremely difficult balance has to be struck. In view of what we say in paragraph 5.10 above, we have not found it incumbent on us, or necessary for purposes of this report, to say where this balance should lie, or even to express views on it. All we seek to do, in Chapter 9 below, is to consider licensing and other measures as ways of influencing the balance.

5.14 There may be other objectives which a government may well regard as being relevant to its transport policy. We feel sure, however, that our discussion of the licensing system in terms of the objectives we have set out above will bring out its most important effects and implications. It will also no doubt show a degree of inter-relation between these aims, in that the pursuit of any one may contribute to or inhibit the achievement of another.

5.15 In the following five chapters we propose to take in turn each of the objectives, and to examine the licensing system against it; to see in each case whether it has contributed to achievement of the aim; whether some modification of the system would enable it better to do so; and whether means other than quantity control by licensing might be more effective instead.
CHAPTER 6

Licensing and Safety

Introduction

6.1 Throughout the history of the present system of licensing, there has been an undercurrent of belief that there was a close connection between licensing and the safety of lorries. Since we think that a major and compelling aim of government in regulating the transport of goods by road should be the promotion of a high degree of public safety, including the safety of those engaged in the industry, it seems right to us to start our examination of the present licensing system by seeing how it has worked in the field of safety.

THE SAFETY OF LORRIES

The Accident Record

6.2 The road accident record of the heavy lorry is in some respects better than that of most other road users, bearing in mind the mileages run by each class of vehicle. A lorry of 1½ tons or over will on average run 340,000 miles before being involved in an accident involving personal injury, while a car runs only 265,000 miles.* But there is little reason for satisfaction on this account. The margin in favour of lorries is not large. Their size, weight and strength mean that the accidents they do have are of greater rather than lesser severity. Thus a lorry is involved in a fatal accident every 7 million miles on average as compared to 12 million miles for a car.

6.3 Two factors suggest that it would be entirely reasonable to demand of lorries a safety record not just somewhat better than that of cars, but a great deal better. First, a high proportion of goods vehicles are driven full time by professionals, while cars are inevitably driven quite largely by people with much less experience. Second, the greater the potential danger of the tool, the greater should be the safeguards and the care in its use.

6.4 In the light of these considerations, the present safety record of the lorry is not what it should be. There are many good operators and drivers who do all they humanly can. But there are also many indifferent or bad ones.

The Present Situation as Regards Lorry Maintenance, Safe Loading and Hours of Drivers

6.5 The difficulties of showing a direct correlation between road accidents and any particular shortcoming of driver behaviour or vehicle equipment are well known. No material is available to us to show that the accidents in which lorries have been involved can be attributed mainly to any particular cause

*Ministry of Transport and Scottish Development Department, Road Accidents 1963. Table on Page xx (H M S O).
But there is no call to prove the danger to the public of a heavy and laden lorry, running away on a hill for lack of brakes, or careering headfirst into oncoming traffic as the over-tired driver nods off at the wheel. The obvious menace of such situations is ample justification for any action to avert them wherever it seems likely that they may arise.

6.6 As to the widespread possibility of such situations there is ample evidence. A series of special checks was conducted by your Ministry from July to October 1964 outside major cities. At these checks 15,000 vehicles were examined, nearly 1,500 immediate prohibition notices were issued and nearly 7,000 delayed notices. An immediate prohibition notice is issued if the defects in the vehicle are such as involve immediate risk to public safety. It will be seen therefore that 10% of the lorries inspected were unfit to be on the road, and 45% were less seriously defective.

6.7 The figures reveal a shocking state of affairs, particularly since advance warning was given of the towns where these checks would be conducted, so that operators had every opportunity to put their vehicles in order. It must of course be borne in mind that some effort was made deliberately to pull in those vehicles which appeared to be in bad condition. But the same kind of figures have consistently been found in other roadside checks, and some of the Licensing Authorities have mentioned in their annual reports that checks in their areas conducted on a random basis showed no significant improvement in the figures. Every member of the Committee witnessed such a check, and saw for himself how important were the defects which were found.

6.8 The bad maintenance situation is made worse by what is happening in other fields of lorry safety—overloading and drivers' excessive hours.

6.9 Under present law, maximum permitted weights are governed only by the number of axles of the vehicles. For example, a two-axle vehicle may legally weigh up to 16 tons laden. No offence is committed below that weight, provided the load is well stowed and secured: yet such a weight may be greatly beyond the design capacity and probably beyond the safety limits of the vehicle. The legal position can hardly fail to tempt operators to overload vehicles. Even the well-intentioned have only a manufacturer's recommendation as guidance as to what their vehicles may safely carry; and as they know that this guidance is probably over-cautious, they feel no compunction in disregarding it. We cannot doubt that in practice many lorries carry more than is safe.

6.10 This view is confirmed by the number of prosecutions taken for breach of maximum permissible weights.

6.11 The danger of driving while tired is clear. The added danger when the vehicle is a heavy lorry is clearer still. The maximum permitted hours of driving of a heavy lorry are therefore laid down by statute, explicitly for reasons of public safety. To show that these hours are being observed, lorry drivers have to keep records; and officers of your Department enforce both requirements by a process of checks and examinations, and where appropriate by prosecutions.

6.12 We were told, by witnesses well placed to know, that the statutory limits on drivers hours were widely disregarded, and that the system of enforcement through the examination of records was quite inadequate. Even as it is, the enforcement work of a staff of roughly 140 results in some 12,500 successful
prosecutions a year (4,000 for excessive hours, and 8,500 for failure to keep the required records. In the latter class of offence there is often good ground for suspecting an offence of excessive hours also).

6.13 There is an element of double counting in these figures because prosecutions may be brought against more than one person for a single offence. But they do indicate a serious situation. The evidence we received convinced us that breaches of the statutory limits on hours of driving are far too common.

6.14 We are forced to conclude that safety regulations are disregarded far too frequently. The Salter Conference found in 1930 that the time had come to tighten things up. So again do we.

THE CONTRIBUTION OF LICENSING TO SAFETY

6.15 The main government measures to secure the safety of road goods vehicles are direct. Statutes and regulations lay down safety rules and requirements, and these are enforced by the police and by specially appointed officials.* The role of licensing in promoting safety is indirect. Opinions were expressed to us that this role had been two-fold: to create an incentive to good behaviour by providing a special "trade" penalty, through the power of Licensing Authorities to revoke, suspend or curtail a carrier's licence; and to afford at least enough protection from extremes of competition to allow those within the industry to maintain their vehicles properly and to allow their drivers adequate rest.

Use of Present System of Licensing as a Disciplinary Measure

6.16 As regards the disciplinary function, we heard on all sides that fear of loss of use of a vehicle, through action in respect of its carrier's licence, was the sanction most likely to have a powerful effect on a carrier's behaviour. The fines imposed by ordinary courts for most "carriers'" offences were usually well worth paying for the financial gain from the offence (and from other like offences which went undetected). Violation of the limits on drivers' hours often gave additional use of expensive vehicles. The immediate and delayed prohibition notices served on unroadworthy vehicles were no great trouble to the owner. Only the loss of a licence would really hurt.

6.17 The value of so powerful and feared a sanction as suspension or revocation of a licence cannot be measured simply in terms of how far it is actually used. Its mere existence as a threat will always make it a considerable but unmeasurable deterrent. Even so its effect will be bound to depend to some extent on the real chance of its being applied. This chance is and has been in practice so remote that we doubt whether fear of licence action has seriously influenced the behaviour of road transport operators in their attitude to safety matters. For offences against safety, these are the figures of revocations and suspensions:

*These include the Vehicle Examiners, the Driving and Traffic Examiners and the Traffic Examiners of the Ministry of Transport, and the Inspectors of Weights and Measures of Local Authorities.
1. Number of goods vehicles on the road in last quarter of twelve months

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<tbody>
<tr>
<td>Quantity</td>
<td>895,000</td>
<td>956,000</td>
<td>1,273,000</td>
<td>1,470,000</td>
</tr>
</tbody>
</table>

2. Number of prohibition notices:

(a) Immediate (not available) (not available) 7,839 8,037
(b) Delayed (not available) (not available) 22,122 24,495
(c) Total 11,551 20,388 29,961 32,532

3. Number of prosecutions for safety offences:

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<tr>
<th></th>
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</tr>
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<tbody>
<tr>
<td>Overloading</td>
<td>3,891</td>
<td>4,826</td>
<td>6,568</td>
<td>9,663</td>
</tr>
<tr>
<td>Records</td>
<td>12,523</td>
<td>9,429</td>
<td>15,257</td>
<td>12,211</td>
</tr>
<tr>
<td>Drivers' hours</td>
<td>2,087</td>
<td>1,917</td>
<td>4,083</td>
<td>4,559</td>
</tr>
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</table>

4. Number of carriers' licences revoked for offences against safety:

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<tr>
<th></th>
<th>Nil</th>
<th>Nil</th>
<th>2</th>
<th>Nil</th>
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<tbody>
<tr>
<td>Vehicles affected</td>
<td>Nil</td>
<td>Nil</td>
<td>8</td>
<td>Nil</td>
</tr>
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5. Number of carriers' licences suspended for offences against safety:

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<th>2</th>
<th>1</th>
<th>4</th>
<th>7</th>
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<tbody>
<tr>
<td>Vehicles affected</td>
<td>6</td>
<td>1</td>
<td>9</td>
<td>11</td>
</tr>
</tbody>
</table>

*Including loading defined as dangerous (which is not necessarily above the weight permitted by regulations).
†Source: Licensing Authorities' Annual Reports.

On a fleet of 1 1/2 million vehicles, and a number of operators which is not accurately ascertainable at present but which may well exceed half a million, so rare a use of a disciplinary power suggests that offences are not dealt with nearly severely enough.

6.18 The figures we give above of defective vehicles, overloading and of hours and records offences in respect of drivers' hours show how far there is a failure to comply with proper safety standards, and that this is being detected. Clearly offences hardly ever lead to action against the carrier's licence. This must greatly reduce the deterrent power of the sanction. We conclude that licensing is not at present having any appreciable disciplinary effect.

The Argument that Licensing is a Protection against Disregard of Safety through "Excessive" Competition

6.19 The same facts about the present widespread failure to observe safety requirements tell heavily with us in assessing how far licensing, by restricting "excessive" competition, has enabled operators to maintain proper safety standards. These standards have not been kept up, so clearly licensing has not
by any means fully achieved this aim. It is more difficult to say whether, but for licensing, matters would have been much worse or whether, through stricter licensing, it could have been made much better. After most careful examination of the modern history of road transport of goods, and consideration of the theory of the relation between restrictive licensing and safety, we conclude that there is little or nothing in the argument that licensing benefits safety by restricting “excessive” competition. We think that licensing could have had little or no effect.

6.20 In broad terms, the case made for control of quantity, to ensure safety, is that with unrestricted entry to the industry, competition would become so fierce that in a desperate struggle for survival, rates would be cut below the level of long term costs. Operators would then be forced to cut costs, and the safety features like maintenance and hours of drivers would be the first to suffer. Those who advance this argument in support of their case usually point to the improved conditions in the industry after the passing of the Road and Rail Traffic Act in 1933.

6.21 By the end of the 1920’s, the road haulage of goods was both highly competitive and unregulated. Not only was there no regulation of competition, but also no restriction on drivers’ hours, no significant control on fitness of vehicles or their loading and no testing of drivers. Speed limits were honoured in the breach. With a similar lack of discipline over cars and buses, the toll of road accidents was high and growing alarmingly.

6.22 It has also been said that the bankruptcy rate among hauliers at the time was abnormally high, and a connection has been seen directly between this and the mounting number of accidents. In other words, both pointed to “excessive” competition.

6.23 The legislation of the early 1930’s (mainly the Road Traffic Acts of 1930 and 1934, and the Road and Rail Traffic Act of 1933) dealt with both the direct and the indirect approaches to the problem. Safety requirements were laid down in specific terms, and competition was curtailed by a system whose object was to limit the total supply of transport to something like the amount needed to meet the demand.

6.24 By 1939, the licensing system was fully under way. The situation in road transport of goods had manifestly improved. And so it was argued that it was the control of competition that had done the trick. But in fact had it, either in part or in whole? The direct safety controls which had been imposed could not have failed to have had some effect, and perhaps a great one. General economic circumstances had changed from the slump conditions of 1929–31 to more buoyant conditions of 1937–39. Detailed research into bankruptcies of the late 1920’s has tended to show that the failures in road haulage were probably not abnormal. Road haulage was a newly developing industry, attractive to ex-Servicemen on demobilisation after the first World War. The industry was developing in a period of violent fluctuation in industrial activity, culminating at the end of the decade in a vast and deep world depression. In these circumstances a fair number of bankruptcies in the road haulage industry was probably only to be expected. Other occupations like that of small shop-keeping were suffering similarly.
Looking back, we see a "growing up" of the road haulage industry after the Act of 1933, and the disappearance of quite a number of its adolescent blemishes. Quantity control by licensing had been introduced and served to restrict competition. But four other important factors were also at work. Parliament had imposed many direct controls on safety. Business confidence and activity had improved steadily. The firms in road haulage were themselves learning from experience and were developing in commercial knowledge and discretion and in operating efficiency. And the motor industry had made great strides in producing safer sounder vehicles.

That factors other than the introduction of the quantitative control aspects of licensing were at work is suggested by what happened to the road accident records of lorries and cars between 1931 and 1936. The following table shows the figures:

<table>
<thead>
<tr>
<th></th>
<th>Goods Vehicles</th>
<th>%*</th>
<th>Cars</th>
<th>%*</th>
<th>All Motor Vehicles</th>
<th>%*</th>
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</thead>
<tbody>
<tr>
<td>1931</td>
<td>67.7</td>
<td>0</td>
<td>55.5</td>
<td>-3</td>
<td>66.1</td>
<td>-3</td>
</tr>
<tr>
<td>1932</td>
<td>67.6</td>
<td>0</td>
<td>54.0</td>
<td>-2</td>
<td>64.2</td>
<td>-2</td>
</tr>
<tr>
<td>1933</td>
<td>70.4</td>
<td>+4</td>
<td>52.7</td>
<td>-5</td>
<td>62.9</td>
<td>-4</td>
</tr>
<tr>
<td>1934</td>
<td>69.8</td>
<td>-11</td>
<td>50.2</td>
<td>-16</td>
<td>60.2</td>
<td>-14</td>
</tr>
<tr>
<td>1935</td>
<td>60.9</td>
<td>-13</td>
<td>42.0</td>
<td>-6</td>
<td>51.5</td>
<td>-6</td>
</tr>
<tr>
<td>1936</td>
<td>58.5</td>
<td>-4</td>
<td>39.3</td>
<td>-6</td>
<td>48.6</td>
<td>-6</td>
</tr>
</tbody>
</table>

*%*—Percentage change from previous year.

It will be noted that while the lorry accident record was improving, so was that of the car. This invites the conclusion that the forces at work were applying to both kinds of vehicle. The various direct measures such as the introduction of speed limits and pedestrian crossings, and the improvement in the technical quality of motor vehicles, were among such forces. If quantity control of lorries, or indeed the whole carriers’ licensing system, had had any significant effect, it would have been reasonable to expect that the lorry record would have improved not just more or less parallel with that of the car but to a noticeably greater extent. It did not improve thus.

Our study of past events, therefore, yields no direct evidence that the initial limitation of competition imposed by the Road and Rail Traffic Act of 1933 had any appreciable effect on safety.

As this is however only a verdict of "not proven", we went on to try to analyse and probe the theory of the argument, and also to look around for other evidence.

As to the theory that limitation of competition is beneficial to safety, we conclude that it is ill-founded.

Although the licensing system tends to reduce the pressure of competition it has not eliminated it within the industry. Operators have an incentive and are under some pressure to cut their costs. However, there are many ways they can do this. Some put great effort into achieving high efficiency in operation;
others economise on premises; others pay great heed to their vehicles; others increase their drivers' hours and cut down vehicle maintenance; others take lower profits. All these courses are open to an operator, and which he chooses depends on the man. Moreover even where conditions allow operators to make large profits there is no guarantee that some operators, in search of still higher profits, may not cut their expenditure on maintenance or exceed the limits on drivers' hours. We are convinced that it is the sense of responsibility of the operator, and not the licensing system, which mainly determines the priority he gives to good maintenance and observance of drivers' hours.

6.32 To sum up on the safety aspects of the present licensing system, we conclude that it has had no appreciable effect, directly or indirectly, on prevailing safety standards.

POSSIBLE MODIFICATION OF LICENSING TO SECURE GREATER SAFETY

6.33 If our conclusions above are right, it follows that no modification of the technique of quantity control, by discretionary proof of need, would have any effect on road safety. We can see no way of modifying the system in a way which would ensure that the benefits road hauliers obtained by protection from competition would be spent on safety measures.

6.34 The role of licensing in the field of safety is disciplinary, as a sanction to secure that lorries are sent on to the roads in a proper state, driven by responsible men who have not been too long at the wheel.

6.35 The opinions expressed to us by many witnesses leave no doubt that the disciplinary force of removal or suspension of a licence to ply as a carrier can be very high. We can think of no more effective deterrent to breach of the law by lorry operators. All other measures are of much less consequence. Fines are often well worth paying, for the financial gain which the breach of law has made possible. Gaol sentences would certainly have a salutary effect; but the Courts would always be reluctant to take this extreme action for offences of this character. Prohibition of use of vehicles which are unfit carries no direct financial penalty, and often only means that repair work, which was inevitable anyway, is at last done. Even a lorry subject to an immediate prohibition notice may go legally on its way once unloaded, subject only to possible prosecution under different statutory powers.* Moreover it may go on its way loaded, in defiance of an immediate prohibition, once the examiners have gone, subject only to the risk (which may in present circumstances be negligible) of being stopped again on the road.

6.36 At the present time there can be no doubt that the public and the many responsible and law-abiding lorry operators would benefit greatly from the vigorous use of licence action to secure good behaviour. Many who appeared before us or who gave written evidence agreed with this view.

6.37 While there is therefore no benefit to safety in keeping a quantitative licensing system, we regard it as essential to keep some form of permit (even in simplest form available initially on demand and held for as long as it is not revoked or suspended) so that the right to ply as a carrier, whether of his own or others' goods, can be revoked, suspended or curtailed. The essential condition

*We understand that your Department is already aware of this situation, and has noted the point for consideration in any future amending legislation.
of such a permit would be that the holder should abide by the requirements of the law as regards safety; and for any breach of these requirements, he would be fully liable not only to the ordinary processes in the courts for the offence he had committed, but also to lose all or some of his right to continue to carry goods.

6.38 The influence of this sanction will depend on the likelihood of its use in practice. At least until there is a marked improvement in those aspects of lorry safety which we have criticised, the power to revoke, suspend or curtail a permit should be used sufficiently frequently and widely for every operator to realise that his livelihood is in very real jeopardy if he does not conform to the safety regulations. In this imperfect world fear of the consequences is a spur to endeavour which should be used. These consequences should not only chastise the wicked but also discourage any thought of falling back by those with dwindling firmness of purpose.

**Enforcement of Suspension or Revocation**

6.39 If powers of suspension and revocation of permits were used more widely, there would be a further problem of enforcement of the penalty. It would therefore be necessary to see that those who had had their permits taken away did not continue to operate without a permit, nor obtain a new one under another guise.

6.40 To prevent evasion of the penalty for plying without a permit, a much larger and more readily visible form of permit plate, perhaps akin to the present excise registration plate, would be useful. There would be one such plate per vehicle licensed, and the plate would be removed from the vehicle if a prohibition notice were issued or if the carrier’s permit in respect of the vehicle were revoked, suspended or curtailed. Any vehicle then running without a permit would be particularly conspicuous (just as one without a number plate is conspicuous at present).

6.41 It would be more difficult to cope with those who sought to evade the impact of suspension or revocation by applying in a different trading guise for a new permit in place of one suspended or revoked. (This position can already arise with C licensed operators under the present system. It does not seem to have done so in practice simply because there has been so little revocation, suspension or curtailment of licences). The difficulty might be met by a combination of measures. The application for a permit could include a declaration that the applicant was not currently under any revocation, suspension or curtailment order. In addition, there could be a further declaration that he was not directly connected in business with anyone who had lost his permit. As a further safeguard the applicant could at the discretion of the Licensing Authority be required to declare the names of the shareholders, of the directors and of the holders of the main management posts in the firm, the firm’s address and the address where the vehicles were normally kept. False declaration could be severely punished. Correct declarations should be sufficient to reveal any significant participation in the firm’s affairs by anyone barred temporarily or for longer term from holding a permit. For any who got through the net, there would be the ever present risk of detection from visits to premises by those responsible for the law relating to the hours of work of drivers or the mainten-
ance of vehicles in good condition. The system might not be wholly proof against determined evasion by any one prepared to commit a criminal offence. But we think it could without too much elaboration put formidable difficulties in the way of anyone trying to evade the regulations.

**Duplication of Punishment**

6.42 We have considered at some length whether the disciplinary powers of the Licensing Authorities, exercised after an offence has already been punished by the Courts, constitute a second punishment, which might be held to be inequitable. No one complained to us on these lines, though the situation has stood ever since licensing was introduced. There seems no case for any change. The punishment by the Courts is for disobedience of the law of the land. Any action by the Licensing Authorities is designed to see that the commercial use of vehicles with great potential for danger to the public is allowed only to those who continue to show themselves to be fit and proper persons thus to be trusted. The two functions are quite separate. We would not be attracted by either of the alternatives—giving Magistrates’ Courts the power to take away a carrier’s permit or giving Licensing Authorities the power to fine for breaches of the safety regulations and turning them into hauliers’ courts.

**Duality of the Licensing Authority’s Role**

6.43 On one aspect alone of the Licensing Authority’s disciplinary role does a change seem desirable. At present the Vehicle Examiners and Traffic Examiners are under his control. These officials detect the offences, bring the prosecutions, and give evidence in the Magistrates’ Courts, and if disciplinary licensing action is taken they in effect play the same parts before the Licensing Authority acting as a judge. This amounts to making the Licensing Authority judge and jury, prosecutor and policeman, all in the same case. This situation does not seem in fact to have worked unfairly, but in principle we regard it as unsound, and as do the Licensing Authorities themselves. It would be advisable to preserve the manifest impartiality of the Licensing Authorities when exercising their disciplinary function, by relieving them of their responsibility to control the enforcement staffs.

**Responsibility for Safe Operation**

6.44 In the course of our study of enforcement of the safe condition of lorries, we were frequently struck by the problem of responsibility. Drivers often knew their lorries were in poor shape; but their job was to drive, not to maintain; and when they reported defects, they might well be told to get on with the job they were employed to do. Indeed it was clear that in some cases the frequent reporting of defects by drivers was unwelcome to employers, and that these drivers soon found their jobs at risk if they persisted in drawing attention to the need for repairs. Maintenance staffs were not always given the necessary opportunities to carry out their vital work, and the demands of the traffic department often had higher priority. Often those ultimately responsible for the conduct of the business did not know of the true state of their vehicles, and would have been horrified to find out the truth. (We came across cases where this was so).

6.45 If an order of revocation, suspension or curtailment of a licence of a small firm is made, clearly those at the top of that firm will soon get to know.
But where the firm is large, perhaps national in scale, licence action might apply to only a small and local part of what they were doing. The directors or top management might then be wholly unaware of local events.

6.46 It is essential that a proper system of supervision be set up in every operator's business to make sure that no unsafe vehicle is put upon the road. To meet this situation, we considered whether the permit should be personal to some senior official of the firm, or even to the top man himself. Then any proceedings could easily be brought most forcibly to the attention of someone with adequate power to take appropriate action. But the cause of disciplinary action would usually be day to day matters for which top management was entitled to delegate responsibility, and for which it might not be fair to punish the top men personally.

6.47 The point would be met if the application form for a permit had to show the name of the owner of the firm or a director of the company as applicant and he had to acknowledge personally in writing any notice sent of permit action taken or threatened by the Licensing Authority. The same procedure might with advantage be used when a prohibition notice was served following a check of a vehicle's roadworthiness. Action on these lines would not be unfair in principle nor unduly burdensome to those with wide and heavy responsibilities. But it could hardly fail to ensure that top management knew what was going on in the lower reaches of their organisations; and this would be bound to have a salutary effect.

MEASURES OTHER THAN LICENSING FOR EFFECTING SAFETY

6.48 A permit system to provide a sanction in safety matters is of high importance. But this does not mean that it is the only way to achieve safety, or even the most important way. The safety features which we have considered (good maintenance of vehicles, loading within safe limits and observance of statutory limits on hours of drivers) can also be brought about by direct enforcement. This would include advice, caution or, in the last resort, prosecutions in the Magistrates' Courts.

Maintenance of Lorries

6.49 We know that the maintenance of lorries is a matter to which your Department and the industry are giving much attention. From what we have ourselves seen and heard, we fully endorse the need for this action. We welcome your intention to introduce a system of annual inspection for heavy lorries though we are sure that these must be regarded as a supplement to, and not a substitute for, the random roadside checks which have been the main approach to this problem in the past. We would see great advantage in the extension of these random checks, some being surprise checks, others announced in advance. Such checks, even if they do not catch all defective vehicles passing by, should at least ensure that a man driving a lorry he knows to be defective will, if he is not caught in the net, realise that he has had a lucky escape and will so inform the owner when the vehicle reaches its base.

6.50 There would also be advantage in increasing the trouble to which a lorry owner is put if his vehicle is found at a roadside check to be defective. Indeed he should be positively penalised to some extent for being thus caught.
It should certainly not be sufficient as it is at present, that unloading the vehicle should then allow him if he wishes to go back on the road with the vehicle under its own power. If the vehicle is a danger when loaded, it is not usually much less so when empty. We would also envisage that any lorry subject to a prohibition notice should have confiscated its permit plate (which we suggested in paragraph 6.40). The plate would only be returned when the vehicle had been put right and inspected. Moreover, it would be useful if a fee with a penal element in it were charged for return of the plate, and if perhaps a “ticket” system of fining (with suitable appeal procedure) were considered.

Overloading of Lorries

6.51 We are informed that your Department is working on the development of a scheme of limits to the loaded weight of a lorry much more precise than that contained in present regulations. We understand that under this scheme (known colloquially as “the plating scheme”) all lorries would have to carry a readily visible plate showing the maximum permitted loaded weight of the vehicle. In fixing this weight account would be taken of the main safety factors of the vehicle—braking capacity, strength of suspension and chassis, tyres and probably also the power to weight ratio. The full introduction of such a scheme should help materially to stop the dangerous practice of overloading. To be fully effective the plating scheme would of course need to be backed up by an adequate enforcement effort, and this would involve the provision of weighing equipment on a wider scale than at present. It would also be appropriate that penalties for overloading should be quick and immediately deterrent. For instance, the permit plate we propose should be removed at once from any vehicle found overloaded; and recovery of the plate when the overload has been removed should be subject to the same procedure as we set out in the preceding paragraph relating to defective vehicles.

Drivers' Hours

6.52 The enforcement of the drivers' hours regulations should clearly be strengthened. We have noted that you have already taken steps in this direction; and these measures accord well with our ideas on this aspect of safety. It would also be right that an operator found guilty of any lack of due diligence in securing observance by his drivers of the statutory hours should find himself at great risk of having his carrier’s permit suspended in whole or in part in addition to any punishment which the Courts might inflict. Over-driving is a most dangerous practice, and any owner who procures or condones it should be made to realise that by so doing he is jeopardising his carrier's permit.

Licensing of Lorry Drivers

6.53 A heavy lorry can be a particularly menacing vehicle if not well driven. More is called for than the skills and attitude of the ordinary motorist. We understand that it is intended to reintroduce a special driving licence for heavy lorries, and we welcome this step. The existence of such a licence, apart from its other considerable merits, would make it possible to apply to drivers guilty of safety offences a discipline similar to that which revocation, suspension or curtailment of a carrier’s permit would provide in respect of his employer. In
this way the fringe of drivers whose behaviour does not match their responsibilities could be cut off, to the advantage of the good reputation of the heavy lorry driver as well as to the benefit of the public at large.

*Qualification Requirements for Hauliers*

6.54 A measure which was put to us which might have possible advantage so far as safety was concerned was that would-be hauliers should have to give some proof of their knowledge and understanding of the job and what it entailed, before being granted a permit. Haulage gives a deceptive first impression of simplicity as an occupation. Some of the dangerous practices which from time to time arise in it probably owe something to lack of awareness of the law and of good techniques of safe operation. It was suggested to us that some kind of entry qualification with a syllabus covering for instance the elements of road transport law and of vehicle maintenance would be beneficial.

6.55 Under such a system, new entrants would know from the outset the standards of behaviour with which they would have to comply and what this entailed. Since some period of study would be essential, the casual and irresponsible entrant would be deterred.

6.56 Something akin to this idea is widely practised abroad. It is in its most highly developed form in the Netherlands (where qualifications are required for entry into most occupations). Most other European countries have some kind of scrutiny of individuals before they are allowed to become hauliers. The case for education before entry is stronger where ignorance in plying a trade may endanger the public.

6.57 On the other hand, there can be no doubt that men have entered and do enter haulage in this country at present, and carry out their responsibilities well, although they might find difficulty in coping with some form of examination on a prescribed syllabus. They make good hauliers and the country would be the loser for debarring such men.

6.58 While we do not recommend the prescription of an entry qualification at present, a voluntary training scheme for those already in the haulage business would have merit. So too would the setting up of appropriate courses on a voluntary basis for those who wish to enter the industry. The former kind of training will probably flow from the bringing into effect, in respect of the road transport industry, of the Industrial Training Act. The same machinery might also encourage or stimulate the provision of training facilities for aspiring hauliers.

6.59 It was also put to us that besides being professionally qualified, a new entrant should be required to put down a sum of money on deposit as evidence of his substance. The connection with safety of this proposal seems at best remote. In practice we see nothing to commend it. If the money were deposited beyond the reach of the new entrant, he would in effect have had to freeze a substantial sum of capital which might much better have been used to see him through his early and difficult period in the industry. If the deposit were all that stood between him and entry to the industry, he would be put under heavy pressure to borrow it, perhaps at a heavy rate of interest, so that it was a millstone round his neck.
COST OF ENFORCING SAFETY RULES

6.60 The combination of all the approaches we envisage would bring about a much higher degree of safety. But all would require expenditure on manpower and equipment on a scale far greater than present levels. This should not be allowed to be an obstacle. It would be appropriate that the industry should bear the ultimate cost, through fees or penalties, just as the costs of the present licensing system and the enforcement of drivers' hours, and the costs of roadside checks, are borne through the fees paid for carrier's licences. The saving of the cost of the present system of quantitative control by licensing would of itself pay for a considerable increase in direct enforcement effort.

THE ROLE OF THE COURTS

6.61 We do not question the desirability of maintaining the independence of the judiciary and we would be unwilling to see any instructions given to the Magistrates except by the superior Courts. We feel however that more could be done to bring home to the Magistrates the greater danger to all other users of the road of a defective or overloaded vehicle, or one driven by a tired driver.

SUMMARY AND CONCLUSIONS

6.62 The present system of licensing has not been responsible for bringing about an appropriate degree of observance of safety of lorries. We can see no practical way of altering the system of quantity control to achieve greater safety. However a permit to carry goods, unrelated to quantity control, has a vital place as a disciplinary measure, which should be widely used. The annual inspection of heavy vehicles and increased roadside checks would be valuable. Vehicles found defective at these inspections and checks or overloaded could be stripped of their permit plate. Operators persistently offending and found contravening regulations on drivers hours should be deprived of their carrier's permit. This would generally be a more reliable deterrent than a fine of any amount which seems likely to be passed by Parliament or imposed by the Courts. Steps might also be taken to ensure that the Courts are aware of the seriousness of offences against safety. If sufficiently used these measures should largely eliminate the fringe of reckless drivers and irresponsible operators.
CHAPTER 7

Licensing and Efficiency

7.1 The second policy objective against which we assess licensing is the promotion of the efficiency of road transport of goods. We define “efficiency” by saying that it would be at its maximum when the road transport of goods was being carried out effectively, to meet the diverse and varying needs of its customers, with the minimum demand on national resources, while maintaining stringent standards of safety and appropriate working conditions for those employed.

Measurement of Efficiency

7.2 It is easier to say what we mean by efficiency than to measure efficiency itself. It may be possible to compare some aspects of the efficiency of two firms in the same line of business, but this would not help us here. Nor is there much scope for comparison between road transport in different countries, since basic circumstances vary so widely. The best we can do is to consider a number of factors from which it may be possible to deduce whether the efficiency of road transport of goods in this country would be greater in the absence of quantity control by licensing.

7.3 To the casual observer, road transport of goods presents an encouraging impression of efficiency. As we have said already (Chapter 3) there was no significant element of customer dissatisfaction in evidence to us (though this might owe something to the freedom of the user to run his own vehicles if that were the only way he could get the service he wanted, and to the absence of any other yardstick by which to make comparisons). There is certainly competition in the industry. Generally if one haulier fails to give good service, there is a competitor ready and willing to step into his place. It must be recognised however that such competition is almost entirely confined to those already established within the licensing system—competition from new entrants plays hardly any part. The industry has seemed alert to new needs, and not slow to adopt new techniques (e.g. the use of specialised vehicles for carriage of bulk materials—though here the lead has often been given by the own account operator). There has been no serious suggestion of a crying need for new blood to invigorate the industry.

7.4 It would be wrong however to judge the industry and the effects of licensing solely on this basis. Measurement of efficiency is hardly practical. There is also little evidence of the effect on efficiency of different arrangements in other countries. Our examination of the relationship between licensing and efficiency therefore depends greatly on our views about the implications of the principal features of the present system of quantity control by licensing. We can discern the direction in which licensing tends to work where efficiency is concerned, even if we cannot measure the effect.

Limits imposed by Licensing

7.5 Every form of licence in one way or another restricts the licence holder. For the A licensee his declared “normal user” sets a framework for his operations from which he can only depart to a marginal extent. If he wishes to change
his work profoundly, he must put his licence at risk by reapplying, and for major changes objection to a grant is more than likely from those already in or laying claim to his new trade. He can hardly be blamed therefore for not seeking change. The A Contract licensee is firmly tied to one customer only and so must forego any opportunities for more intensive use of his vehicle which would arise from carrying goods for others. The B licensee is confined to the conditions of his licence, and this may give him greater or less scope but never complete freedom. For him, the return load is denied unless it comes within his conditions. The C licensee can carry only for himself.*

7.6 This certainly seems to be a formidable series of restrictions. Could it be that in fact the reality of restriction was less than it appeared? In other words, perhaps operators in various licence categories were content with the limited freedom they already had, since they would have been hard put to it in practice to make use of greater freedom. This was the argument of the C licensed operators' representatives when they said that in general they did not seek to be able to carry for hire or reward. They said that most C licensed operators ran their own vehicles to meet their own special need; and that they would not be interested in interrupting the smooth flow of performance in meeting these needs just to seek out loads for profit. But even this argument was not completely adhered to. For instance, it was represented to us by a number of organisations that the freedom conferred upon a holding company in respect of subsidiaries at least 90% owned should be extended to subsidiaries which were majority owned. Such proposals would hardly have been made had it not been that the present arrangement inhibits operations.

7.7 It is probably true that for many C operators greater use of vehicle capacity can only be achieved by reducing the standard of service more than is acceptable. But it would also be surprising if there were found in practice to be no useful economies, over the country as a whole, from C licensed operators looking around to find others whose road transport requirements could be fitted in well with their own. The present limitation, which has held for 30 years, has inhibited C operators from this pattern of thought, and therefore from actively looking for opportunities.

7.8 Greater freedom would not amount to turning all traders or manufacturers into hauliers. The own account operator has a very firm priority and a fairly rigid starting position—his first duty is to meet his own firm’s needs. What he might gain from a return load would cost him dear if he thereby upset his own movement programme. But so far as there are movements on the behalf of others which he could fit in with his own, and thereby avoid some empty or part loaded running, we are sure that present licensing must be an impediment to efficiency. And in so far as his own needs fluctuate, and he finds it desirable to keep enough lorries to cope with his peak demands, at other times his fleet is likely to be under used.

7.9 On all sides too we found dissatisfaction with the “normal user” arrangements for A licences. The hauliers' associations and the hauliers themselves who gave evidence to us were unhappy about the restrictions which “normal user”

*Unless he is a holding company with at least a 90% holding of the issued share capital of a subsidiary or subsidiaries, in which case a degree of freedom to use each company’s vehicles under the holding company’s C licence can be obtained by application to the Licensing Authority.
attached to what they clearly felt ought to have been the (original) concept of a licence freely to ply anywhere, any time, with anything. So much feeling could hardly have been generated against a purely "paper" restriction. It must have been against the real restriction imposed by "normal user" that hauliers were complaining.

General Effects on Efficiency of Licensing Restrictions

7.10 The various licensing restrictions are bound to have a considerable bearing on efficiency. First, competition will inevitably be lessened. Second, the most efficient use of vehicles will from time to time be inhibited. Third, speed of adaptability to new situations and needs will be reduced.

7.11 Competition is a considerable spur to efficiency. And competition certainly exists in road haulage, sometimes to a fierce extent, sometimes less so. But licensing inevitably prevents new men and firms from entering the industry as and when opportunity seems to them to be present. And it must also inhibit the expansion or redirection of the operations of existing firms. (From what we heard in evidence, the influence on new entry is greater than that on expansion or redirection). In tending therefore to prevent these changes in particular parts of the haulage market, the licensing system must make it easier for the less efficient to hold their place, and more difficult for those more efficient to displace them. The restriction of competition also creates a situation more conducive to the operation of restrictive arrangements and understandings of a kind likely to be adverse to efficiency.

7.12 The imposition of more or less stringent restrictions on the use to which a lorry can be put must also frequently reduce the efficiency of its operation. In considering the question of load factors (Chapter 3), we have shown that the proportion of full-load running of a lorry is not necessarily an appropriate measure of efficiency. But obviously the aim of minimum use of transport resources is more nearly achieved the more any one vehicle is used. Efficiency as we have defined it can only be less if licensing means, as it often does, that two vehicles have to be used where one would do. This view is confirmed by the steady stream of applications for full A licences by A Contract operators who produce as evidence the pressure of their customers for the lower rates which more work for their vehicles would make possible; and in the intermittent attempts by C licensed operators to break into the hire or reward field for basically the same reason.

7.13 A third effect of licensing restrictions on efficiency is that the ability of hauliers to adapt quickly to the changing needs of their customers must be reduced. The haulage services required by trade and industry are ever-changing, often at short notice. A ship carrying imports which normally came to London may be diverted to Liverpool, which may be beyond the conditions of a B licensed haulier who has for long served a particular importer. Or the trader may change his supplier to one from another part of the country. His regular haulier can only continue to serve him if he can survive the process of getting his licence conditions changed. If he cannot, the trader must find a new haulier with whom he must build up that mutual understanding which is essential to efficiency.

7.14 All the effects of licensing on efficiency which we have discussed above must find their reflection in costs and hence in prices. It is not possible for us to
say by how much costs and prices are raised by the system. The effects of the system cannot in general be measured, or their relative importance established, by reference to observed events and situations. It is in the nature of things that these effects have to be inferred from the nature of the restrictions; and the severity of the restrictions is largely a matter of judgement. We think that the adverse effects of licensing on efficiency and the prices of haulage services are sufficiently important to be a serious criticism of the system.

The Control of Capacity and the Price of Licences

7.15 It was the opinion of some of those who gave evidence to us that, particularly since the change of emphasis in the proof of need was made in 1953, the licensing system had not in practice significantly affected the availability of haulage capacity. But our impression is that within this broad situation there are circumstances in which the system has been restrictive. A possible index of the extent to which licensing has this effect would be the scarcity value of a haulage licence. Although licences cannot at law be transferred by sale*, we were told that licences in fact have a market value, and that in recent years the price of a licence in some transactions has been as high as £300 a licensed ton. One interpretation would be that these prices represent the capitalised value of the additional profits secured by licence-holders by virtue of their ownership of the licences in a situation of restricted total supply. New entrants or established firms wishing to increase their capacity apparently have been willing to pay such prices. If this interpretation were correct, the prices paid for licences would be a direct measure of the severity of the control of capacity by licensing.

7.16 In practice the purchase of the licence is not a separate transaction. It is tied up with the purchase of a going concern (the licence of a dead business is worthless, as the Licensing Authority will not agree to its transfer to a new owner) and the value-of-licence element in the total price paid would not normally be stated separately or be easily calculable by a third party.

7.17 A realistic measurement of the current scarcity value of licences in different parts of the industry is elusive, and we have no systematic data. But we are satisfied that in many transactions a price is paid in effect for the special value of the licence held by the sellers. It has been put to us that in many or most of these transactions where there appears to have been a payment for the licence as such, the buyer paid the price because of his failure, as a newcomer, to understand the working of the licensing system, with the resultant tendency for him to have an exaggerated view of the difficulties of obtaining a licence without payment (except for the fee) by application to the Licensing Authority. Even if it were the case that all or most payments for licences were misguided and unnecessary, it would suggest that the licensing system is regarded by newcomers as if it were sufficiently restrictive to warrant material payments to circumvent its rigours and to secure a place within its shelter. Misguided payments for licences have no doubt been made in some cases, but we do doubt whether they have been common. We are impressed by the fact that relatively

*But a new licence is granted without further question to the purchaser of an existing business provided that the Licensing Authority is satisfied that the business is a going concern. And where the purchase of the business is by way of the shares in a company, the nominal holding of the licence is unchanged, so no question of transfer arises.
few A licences have in recent years been issued to newcomers. Moreover, ignorance of the system cannot explain the frequent transactions in which one established haulage firm buys the business of another and pays a price which includes something for its licences. We conclude that in some parts of the industry control has been restrictive. To the extent that quantitative control by licensing curtails the volume of road haulage services, we would expect the prices of these services for this reason alone to be higher, the difference reflecting the advantage conferred on those fortunate enough to have been granted licences to serve a market in which supply is restricted.

**The Bias Imparted by Licensing to Own Account Operation**

7.18 The inevitable delays and considerable complexity of licensing are in our view a partial explanation of the decisions of many traders to use their own vehicles rather than those of hauliers. They must often have felt that any minor disadvantage of running their own transport was to be offset against the troubles and inflexibilities of having their goods carried by a haulier whose licence would have to be extended to deal with an increase in their traffic, or adjusted to cope with a change in its character. If they used their own vehicles, details of their commercial operations remained in their own confidence. If they wanted to use a haulier their operations and their plans might well have to be disclosed in open court, to the advantage of their competitors, and there might well be delay before the additional vehicles were available.

7.19 We think that the whole procedure of control of licences for haulage has tended to bias traders in favour of using their own vehicles under C licence; and that this is part though by no means all of the explanation of the growth of the number of C vehicles in recent years. To the extent that this bias has been present, it has added to the number of vehicles operating under the most restrictive category of licence. In this way the restrictive system of licensing of hauliers has reduced overall transport efficiency: by increasing the share of traffic carried in lorries most restricted as to use, it has increased the volume of vehicle movements on the roads.

**The Case for Quantity Control by Licensing as an Aid to Efficiency**

7.20 We have set out above the adverse effects of restrictive licensing on efficiency, with the consequential tendency for transport costs to be higher than they would be otherwise, to the detriment of users and the economy as a whole. It has been put to us, on the other hand, that users of road transport derive benefit or advantage from licensing because, without it, conditions in the road haulage industry would be such as to have harmful effects.

7.21 It has been suggested that without controls on entry and capacity, competition would be so fierce that rates would often be at uneconomic levels, that there would be a rapid turnover of small firms, and that chronic excess capacity would emerge. The industry, it is said, would be intolerably unstable in its composition; quality of service would go down with uneconomic rate-cutting; and efficient firms would withdraw from an unprofitable industry. The industry, furthermore, would not be able to render the “public service” expected of it.
7.22 We do not accept this analysis. It is not supported by our reading of the earlier history of the industry in this country, when allowance is made for the underlying economic conditions at the time, and for the rapid growth of the industry in its early years. The lesson of foreign experience, though limited by the rarity of instances anywhere in the world of uncontrolled road haulage, also goes against the analysis. Moreover, the pessimistic view of the working of uncontrolled competition does not in our view take adequate account of major elements of stability in several of the main markets for transport services. We were impressed by evidence that many users put a high value on continuity of service and business connections and on dependability of service. Again, the small-scale new entrant is unable to enter markets where large-scale operations are essential or offer real economies. Uneconomic rate-cutting, even if it were to occur in fringe markets, would be unlikely to undermine efficient operations in the major sectors of the industry where customers’ preferences for quality and stability are important. Where quality and continuity of service are important to users, regulation of entry or of capacity is not necessary because the behaviour of the users themselves will bring about the required stability; and where quality and continuity are not demanded by users, there is no need for controls to impose stability in their interest, and no case to impose them for the then sole benefit of those who have chosen haulage as their livelihood.

Haulage as a “Public Service”

7.23 We have had no evidence that the “public service” provided by road transport under licensing is different from that of any other service provided commercially to the public: haulage firms are not required by their licences to supply at a loss some services to particular users or to assume extra-commercial obligations. It seems unlikely that, without quantity control by licensing, the road haulage industry would discontinue or reduce any of the services it provides at present.

Control of Rates as an Aid to Efficiency

7.24 It has been suggested to us that, while quantity control by licensing is unnecessary to ensure stability of the road haulage industry in the interest of users, there is nevertheless a serious risk that some rate-cutting may be uneconomic and undesirable, and that this should be avoided by the imposition of a system of minimum rates. As we have explained above, however, we do not believe that rate-cutting would have adverse effects on users and the economy such that public intervention was required. A practicable system of minimum rates for transport services would be very cumbersome and costly to operate and enforce. It would also be likely, if effectively enforced, to impede the flexibility of pricing which is necessary for efficient adjustment by hauliers to the ever-changing and particular business circumstances to which each is exposed.

Direct Costs of Licensing

7.25 On the effect of licensing on costs and prices, there is the final point that the application and objection procedures for haulage licences must of themselves impose additional costs. The cost of the Government’s side of the system (i.e. of the Licensing Authorities and their staffs) is recouped through fees for carriers’
licences, bringing in some £1m. a year (of which about £400,000 is attributable to the costs of enforcing maintenance of vehicles and observance of drivers' hours.) The cost to the industry is not only these fees, however, but also the costs of legal representation, of witnesses at enquiries, and of management time and effort devoted to the licensing side of the business. We cannot quantify this cost, but we are sure that it can be appreciable, if not invariably at least in particular cases.

Summary and Conclusions

7.26 While the road transport of goods gives no outward appearance of inefficiency, the limitations on vehicle use imposed by the present licensing system inevitably cause waste and hence higher costs and prices. The system also reduces flexibility of operation and restricts competition. Its control of the haulage part of the industry promotes the growth of own account operations. Its procedures are themselves an added cost. We do not accept the idea that by controlling competition, the present system of licensing promotes efficiency. The system impedes efficiency in important ways, and thereby imposes a significant economic burden.
Licensing and Amenity

The Physical Effect of Road Transport on Environment

8.1 The reduction of the adverse effects of road traffic on amenity is the third of the policy objectives against which we judge control of road transport of goods by licensing.

8.2 There can be no gainsaying that lorries are usually much noisier than most other road vehicles; their big engines necessarily discharge large volumes of exhaust fumes into the atmosphere; and they are also obtrusive because of their size. They can become a public nuisance, offending ear, nose and eye. The lorry is not the perfect servant going almost unseen and unheard about its business. It often makes a rough, unpleasing, and perhaps unhealthy impact on people as individuals and on environment at large. Its points of contact with us all are many and almost inescapable.

Noise

8.3 The report of the Wilson Committee on Noise* has much to say on the noise caused by road traffic in general, and heavy commercial vehicles in particular. A study carried out in Central London showed that road traffic was the predominant cause of noise at 84% of the survey points. 36% of people questioned were disturbed by traffic noise when at home and 20% when outdoors. The Buchanan Report gave an example† of a modern office block where the level of noise due to traffic was well above the level at which conversation can conveniently be carried on. There can be no doubt that noise is a serious nuisance, particularly in towns, and that heavy lorries are among the main contributors. As more knowledge is gained, a connection between noise and health may also be found to exist.

Exhaust Gases

8.4 The Buchanan Report also stresses‡ the nuisance caused by engine fumes in cities. These fumes are certainly unpleasant to inhale and may well be a danger to health. And the size of lorry engines means that each heavy lorry is producing at least 3 times as much exhaust gas as the average 1½ litre car.

8.5 When for any reason the lorry exhaust contains an excess of unburnt fuel, the exhaust gases become a belching cloud of black smoke. This smoke is particularly unpleasant to breathe and is very dirty. In the large volumes in which it sometimes occurs it can be a hazard to road safety, partly because its unpleasantness impels following drivers to press on and overtake the offending lorry, when it might be wiser for them to hang back. There is a substantial minority of diesel-engined lorries which persistently emit quantities of black smoke. In a country-

*Noise; Cmd 2056, 1963 Chapter III.
†"Traffic in Towns" pp. 212 and 213.
wide check in September 1964 your Department found that 14.5% of the lorries observed were producing excessive smoke.

The Role of Licensing in Securing Amenity

8.6 The original design of licensing made no attempt to deal with problems of amenity. Only if licensing had led to somewhat fewer lorries on the roads could it be held to have had any beneficial effect. But we are satisfied that it did not have this effect.

8.7 If licensing were to make a greater contribution to solution of problems of amenity, it could only do so indirectly. The main way would be to use licensing to reduce the total number of lorries, by transferring their traffic to rail or other forms of transport less hurtful to amenity. In a secondary way, licensing could also help by serving as an additional sanction against offenders who broke direct laws as to noise or smoke etc.

8.8 To use licensing to benefit amenity, by a general reduction in the number of goods vehicles, would involve the difficulties which we shall discuss in Chapter 9 below when we consider licensing and the railways. As we have seen in considering licensing and safety (Chapter 6) the disciplinary use of licensing does not need to depend on a quantity control. Any form of licence issued on demand and held “during good behaviour” would suffice.

Direct Ways of Protecting Amenity

8.9 Apart from the indirect approach by means of licensing, there are several other direct courses of action available to ensure that the use of goods vehicles is not intolerable to the public generally. The noise and smoke problems are not easy to handle, not least because of the difficulties of definition and measurement. But we know that the active search for solutions is continuing. The steps being taken to improve road-worthiness of vehicles will also help, both by reducing the number of cases where noise is caused by the rattle of parts of the lorry, and by encouraging improvement in the general condition of the vehicle. Ideas like the uprushing exhaust pipe and the wider use of mudflaps also seem to us to offer prospects of making the lorry more acceptable to its fellow road-users. More use could also be made of bans on lorries in particular streets or on roads where their presence may offend general ideas of amenity (as is already done, for example, in the Royal Parks in London).

8.10. The direct approach seems to us the only reliable way to reduce the harmful effects of lorries on amenity. Nothing useful can be done through licensing.

Summary and Conclusions

8.11 Lorries often offend the ear and nose, and sometimes the eye too. Their total numbers and the way they permeate our national life make them a potential public nuisance on a large scale. The strengthening of existing measures designed to cope directly with excess noise and smoke is the best way of tackling the problem. Quantity control by licensing cannot help significantly, though a permit to ply (on the lines discussed in Chapter 6) would provide a disciplinary sanction against operators of persistently offensive lorries.
CHAPTER 9

Licensing and the Railways

THE EFFECTS OF LICENSING ON THE RAILWAYS

9.1 The Salter Conference put forward several reasons for recommending the introduction of a system of licensing of road transport of goods. But their declared underlying object was the establishment of a fair basis of competition such as would tend to secure a better division of goods traffic between rail and road. And behind this in turn lay the view of the Royal Commission on Transport that "road competition must continue to affect the railways adversely".* The present licensing system therefore owes its origins to the growth of road transport of goods at the expense of the railways, and a general feeling that "the greatest public advantage" would be achieved by the regulation (i.e. to some extent the restriction) of this development.

9.2 Such an aim might still be among the objectives of government transport policy. It has been said that the greater use of an existing large-scale capital asset, and of a means of transport with fewer adverse social repercussions, would be advantageous, particularly in the light of the present heavy pressure on our roads. These considerations would of course have to be weighed in the balance against the economic benefits which road transport gives and which we can ill afford to forego in a competitive trading world. Through all that the Salter Conference said in its Report about a system of licensing ran the important thread of meeting the needs of industry and trade: "we are equally impressed with the evil of any system which would prevent trade and industry from securing the form of transport which is best adapted to its ever-changing needs at the lowest practicable cost that can be obtained on a salutary basis".

9.3 In reaching any decision to seek to influence traffic from road to rail, again it would be necessary to follow the line of the Salter Conference and the whole question of track costs would also have to be taken into account.

9.4 Nothing in this chapter should be interpreted as approval or disapproval of the policy objective of seeking to influence traffic from road to rail. We regard this issue as outside our terms of reference. We seek to do no more than to examine the quantity control of road haulage by licensing in relation to the policy objective. We do this by considering in turn how far the licensing system has afforded any direct advantage to the railways in the past; whether it offers an instrument to give effect to such a policy in future, if that were desired; and whether there might be other and perhaps less disadvantageous ways to the same end.

9.5 As originally conceived and put into effect through the Road and Rail Traffic Act 1933, the licensing system gave the railways an opportunity to plead the existence of their facilities as a reason why more road haulage licences should not be granted. This was an opportunity which they may at first have used effectively. Certainly they devoted a considerable effort to taking advantage of their opportunity. They vigorously opposed applications, large or small, for

*The Royal Commission's Final Report, paragraph 130.
carriers’ licences for hire or reward. (In the process, they relieved many existing hauliers from any sense of need to make objections—with so powerful an objector already in the field, many a small man did not go to the trouble and expense of briefing Counsel to object on his behalf).

9.6 During the war, other factors came into play, and there was no doubt in those years that the railways were the dominant carriers of goods in this country. But in the post-war period, when the wartime scarcities of rubber and oil no longer caused the Government to apply a heavy curb on road haulage, we think that licensing has had a negligible effect on the distribution of goods traffic between road and rail.

9.7 The reasons for this are fairly clear. For nearly a decade after the war the railways were perforce using equipment which was both obsolete and, after the intensive use made of it during the war, in far from good shape. Their management approach was conditioned by the statutory and historical framework which encumbered them. From the consignor’s point of view, there was a great difference between what the railways could offer and what road transport could do. Road transport with its rapid improvement in vehicles could provide a door to door service which was nearly always faster than the railways, with less handling, fewer breakages, less pilferage, more personal attention and at a lower cost. For the short haul, the lorry had now obviously become the right means of transport. And for the consignor, the balance of advantage even for long hauls often lay clearly in using road transport.

9.8 Thus for industry and trade the advantages of road transport were enjoyed increasingly in terms of speed, price, flexibility and service: these advantages accrued to the benefit of the economy at large, and to the public generally as consumers and as participants in the economic life of the country. But there were opposing considerations from the social point of view, affecting the general public in other ways. The railways were an existing capital asset which was being under-used, and their losses were falling on the public purse. The railways’ operations took less toll of life and limb in accidents than did those on the roads. Fewer people were affected by their noise and smoke. And goods carried by rail saved any addition to road congestion. (This saving would operate mainly on the trunk routes. Rail haulage could do little to help with the growing problems of lorry transport in towns, since here the ultimate collection or delivery of goods had usually to be carried out by lorry, even if the trunk leg had been by rail).

9.9 There was thus a possible conflict between the advantage to consignors individually and the advantage to the public at large. In these circumstances it was hard for the Licensing Authorities to give the railways much protection. The arguments of the individual consignor were loud and clear, and could only be denied at the cost of inflicting obvious and demonstrable harm to his commercial interests. No one spoke for the public at large; and even if anyone had, the Licensing Authorities would have had to decide between the direct and obvious hurt to the consignor on the one hand, or the indirect and rather generalised harm to the public on the other. Moreover, any hurt to the public (in the form of additional congestion, accidents and railway deficits) would have been the result not of the grant of any one licence, but of the sum of them all.

9.10 There was the further practical point that so long as a C licence was to be had on demand, the railways were not likely to get much benefit from increased
restriction on the road haulier. If the consignor thought road transport was required for his own business, and if he could not obtain it from hire or reward hauliers, he would use his own vehicles unless this solution was too expensive. In many situations and for many users this course would have been practicable and would have been taken.

9.11 The Transport Act of 1953 prescribed that the Licensing Authorities, when considering applications for A and B licences, should give priority of consideration to the user over the provider of transport. This made it even more difficult for the railways to sustain objections to the grant of further haulage licences. Customers generally were prepared to appear in the licensing courts to support the haulier whose services they wanted. They were the users, and their needs had to be given first place.

9.12 For the last decade at any rate, we are sure that licensing has had no significant effect in securing for the railways any traffic whose consignor wished it to go by road.

POSSIBLE AMENDMENT OF LICENSING TO INFLUENCE MORE TRAFFIC TO RAIL

9.13 It is not for us to say whether goods traffic should as a matter of general transport policy be required or induced to go by rail rather than road. But if a Government did wish to act to this end could they adapt the present licensing system to achieve that aim more effectively than the licensing system has done for the last decade?

The Scope for Transfer from Road to Rail

9.14 The first point to consider is what practicable scope there is for a policy of requiring or inducing goods traffic to go by rail rather than road. In their report “The Reshaping of British Railways” the British Railways Board state: “Such short distance traffic (i.e. freight other than coal on journeys of less than 50 miles) is unlikely to be attracted to rail unless it can be moved in bulk, directly between rail connected terminals. A very high proportion of this short distance traffic is made up of [specified flows] and other flows to places where no rail terminal could be expected to exist.” On this basis, the scope for diverting road transport of goods to the railways would usually be confined to long journeys of over 50 miles. However, about 80% of heavy lorry journeys are under 50 miles, so that any possible transfer could occur only over less than 20% of the total number of journeys made.

9.15 One of the difficulties of influencing the distribution of traffic between road and rail is that in the circumstances of this country, rail is not the best or often even a practical means of transport for a high proportion of movements of goods. In his lecture to the Glasgow Junior Chamber of Commerce (submitted to us as part of the British Railways Board’s evidence) the Chairman of the Board concluded after a most careful study of the whole rail freight position and potential, that there were perhaps roughly 71,000,000 tons of goods moving annually by road which could appropriately go by rail—and then only if the nature of rail service was streamlined, its costs reduced, and its services brought more into accord with modern needs. This volume of traffic is less than 6% of the total
volume moving by road. In other words, the Railways Board's own estimates suggest that over 94% of the tonnage of goods on the road should continue to go that way even after the railway freight services had been refashioned.

9.16 The relatively small amount of long distance movement of goods is of course mainly the outcome of geography. From Land's End to John O'Groats is nearly a thousand miles. But our main centres of industry and population lie between two roughly parallel lines, one from Glasgow to Edinburgh, the other from London to Bristol. These lines are only 400 miles apart. And the high concentrations of the Midlands, Lancashire and the North-East are conveniently spread in the middle of this belt, and about 100 miles apart. Thus most of the country is within 100 miles of one or more of our great industrial and commercial areas. In these circumstances it is hardly surprising to find that with the exception of the more remote parts of the country there are few long hauls and so many short ones.

The Need to Control Own Account Work

9.17 Any restriction of road transport would have to apply to both hire or reward and own account operation. Given the undoubted preference of many consignors for road transport rather than rail, any action confined to one of these fields would make the other the primary beneficiary, with rail a poor second. If the own account operations of the trader or manufacturer were severely curtailed, his response would usually be to employ a road haulier. If the C licensee were determined to have exclusive control he could do as quite a number of industrial concerns already do. He could employ a haulier on terms which gave him virtually exclusive use, and certainly full control, of what the vehicles did. He could even have them in the livery of his own firm. Thus he would get all the substance of C licence operation while using hauliers' vehicles. The restriction on his own freedom would not have caused him to use the railways.

9.18 If, on the other hand, control were confined to the hire or reward fleet as at present, but applied more stringently, there would be an immediate extra incentive on consignors of traffic to run their own vehicles. This would not be practical for all of them because the additional costs of this solution might be unwarranted—their traffic might be too irregular, or so varied as to need several kinds of vehicle, or they might not have the capital. To this extent the railways would be the main beneficiaries. But the history of the development of the C licensed fleet in recent years shows that for many traders' purposes, road transport suits them so much better than rail that they would surely be prepared to go to some effort and expenditure to retain it for themselves. It must also be recognised that there will be cases where the use of rail transport is not possible, for various technical reasons, or is not feasible commercially because of the additional costs. In such cases a ban on use of road transport would simply mean that that trade would have to stop—and there would be no benefit to rail.

9.19 If the diversion of traffic to rail is therefore to be significant, either in terms of benefit to rail or of reduction of road traffic, the means of bringing it about must bear on both hire or reward and own account road transport. Even then, what would be lost to road might not all be gained by rail—there might be some net loss of traffic and trade.
More Stringent Proof of Need

9.20 The most obvious way of amending the present system so as to affect the distribution of traffic between road and rail would be to subject applicants for carriers’ licences to a more stringent proof of need. The present system certainly leaves room for such a change. The C licence is to all intents and purposes to be had on demand. Haulage licences go to anyone who can produce a potential customer who can convince the Licensing Authority that it is not reasonable to expect him to go elsewhere for his particular service. The difference between rail and road service usually means that effective objection is confined to other road hauliers.

9.21 On the present basis, therefore, need is relatively easily proved. But the criteria of decision could be made much harder to meet. Until 1960 the practice in Belgium, for instance, was to grant licences only where the railways did not want the traffic i.e. in practice only where it was virtually physically impossible for the railways to cope (paragraph 4.8). This represents the extreme limit to enforced use of the railways; between it and our own present arrangements there is a wide range of possible degrees of severity.

9.22 The idea of a control based on a more stringent proof of need than at present has the surface appeal of seeming rational, and it fits in well with widespread views that some of the present use of road transport is “unnecessary” or “wasteful”. But we are convinced that applied with the rigour necessary to have any significant effect, and yet with the reasonableness or equity that we are sure public opinion would demand, it would be an enormous and difficult task to apply a more stringent test of need. Guidance would have to be given to the Licensing Authorities; arguments case by case over an extremely wide and complex field would have to be sifted and heard again as circumstances changed; and it would hardly be possible to achieve complete fairness as between users of transport. We do not say that these problems could not be handled; but their scale leads us to recommend strongly against amendment of the licensing system as a means of influencing distribution of traffic between road and rail.

Guidance to Licensing Authorities

9.23 The system as amended would have to leave wide discretion to the Licensing Authorities. But it would not be appropriate simply to leave the whole problem to them. They would need guidance not only as to the policy they should seek to implement but also as to criteria of need. The drafting of these in practical and usable form would present formidable difficulties. It is easy to see words like “reasonable” or “reasonably practicable” quickly creeping in. In practice they would be of very little help, virtually begging the whole question. Of course, some indication of the factors which the Licensing Authorities should take into account in reaching their decisions would no doubt be possible. But again we see the greatest difficulty in framing this in terms general enough to be of wide application, yet specific enough to secure uniformity and consistency.

Difficulties in Assessing Need

9.24 Our work has brought vividly to our attention not only the scale of road transport of goods, but also its complexity. Hardly any two movements of goods are identical. The differences between them can be most relevant to the decision
whether, within the scope of general policy, rail transport would be a proper alternative. This decision would have to be taken case by case. The choice by a consignor of his form of transport involves the weighing of a host of factors. Speed, price, reliability, flexibility, tying up of capital, customs of the trade, competition—all can have a bearing. One consignor might believe that he needed to offer his customers a 24 hour service. Another might say it was necessary for the driver to be an expert in his commodity. Yet another would argue that use of rail meant provision of expensive packing. The probing of all these kinds of argument would either be superficial and hence valueless, or it would have to be penetrating, and hence protracted—and even then not wholly susceptible of clear cut decision. It seems clear that given the present degree of preference by consignors for road rather than rail, most cases would be argued vigorously, and decisions which went against the consignor’s wishes would be contested to the hilt.

Justice as Between Consignors

9.25 There would also be the difficulty that it would be hardly possible to ensure that the system worked in a way which was manifestly fair as between would-be consignors by road. One consignor might have to be given a licence because his geographical position (which might be quite fortuitous) made rail carriage impracticable. But this licensed use of road transport would confer on him other advantages—ability to meet orders at short notice, economy in packing, or even simply lower freight costs—which might be denied to competitors who were made to use rail. Inevitably some would be given positions of benefit as the result of circumstances for which they could claim no credit. Such a system would hardly earn general acceptance, let alone acclaim, and this attitude would add greatly to the vigour with which each case was fought, and to its pursuit through all the processes available.

Denial of Licence to Certain Broad Traffics

9.26 Because we were much impressed with the sheer scale of the task in trying to work a system of proof of need for transport by road rather than rail, we looked at the possibility of broader approaches, by a general ban on the use of lorries for certain traffics, specified perhaps by commodity or by distance. Such a procedure, if practicable, might greatly reduce the volume of work, if a system of proof of need were to be run alongside it. Or it might make it possible to do without a proof of need system at all.

9.27 The kinds of proposition which we considered were, for example, that there should be a ban on carriage by road of bulk coal; or perhaps of any bulk material in more than say 5 ton lots; or that all road transport for distances more than say 100 miles should be proscribed.

9.28 As with the idea of proof of need, there is again at first sight an attractive simplicity about such an approach. But there are hard practical difficulties. These start from the fact that for some bulk movements and for some journeys however long, rail is not physically or realistically suitable for the work, so no ban could be absolute. If the bulk movement is short, there may be no railway line near enough to offer any reduction in road use (and we assume that no one would want to suggest compulsory carriage by rail simply in order to give the railways some-
thing to carry). If the journey is long and a rail link is otherwise possible, the load may be “out of gauge” for the railways. For a further high proportion of traffics, the unsuitability of rail would be relative, with the extra cost of use of rail, in charges, in time, in packaging, in stockholding and so on, all being a matter of degree, but sometimes high indeed. Here the situation would become one of judgement of individual cases, and all the arguments which tell against a system with a more stringent proof of need become equally relevant to a system of banning of some categories of traffic.

9.29 However we looked at the idea of holding back road transport by licensing, we found no way out of the administrative problems (except by making the restriction so slight that it would have no influence on the situation anyway). We were strengthened in our belief that our fears were well founded by the experience of the Ministry of War Transport. Restriction of the use of road transport during the last war necessarily presented problems of deciding how much additional cost or reduction in service it was “fair,” “reasonable” or “appropriate in terms of policy” to impose on some though not on others. These difficulties could and did arise even when there was general public goodwill and understanding of difficulties. We do not rate highly the chance that the difficulties would be any the less in times of peace, particularly now that the use of road transport has grown so greatly, to the point where it is a major and integral part of our economic system.

9.30 We have set out at some length the difficulties of more stringent proof of need, because on the surface it may appear to be an easy yardstick whereas in fact the difficulties are very real. We do not go so far as to say that a system on these lines could not be made to work. But we do say that such a system would only work in an inequitable and unsatisfactory way. It would inevitably produce decisions which did harm to our competitive efficiency in overseas trade, and which tended to put up costs or reduce standards of service at home. For the sake of clarity we repeat that this view does not mean that we are saying road transport should be given its head, and that no traffic should be influenced to go by rail. All we are saying is that if this is the desired policy, the licensing of road transport by proof of need is a very imperfect and costly way of doing it.

An Administrative or Judicial System of Control

9.31 Even if it were thought that the difficulties and costs to the economy of enforcing a more stringent proof of need, though perhaps great, had to be accepted because of the importance of preferred policy objectives, we are sure that the application of proof of need would demand a quite different technique from that used in the present licensing system. While this system carries out an administrative function, much of its practice is judicial in form and concept. For any material change, due notice has to be given and published. Evidence is heard and examined, and this process is a commanding factor in the ultimate decision of the Licensing Authority. The analysis of evidence is largely judicial in form, with the appearance of witnesses and their cross-examination by Counsel. Precedents are cited and relied on, and successive cases build up an evermore closely reasoned and refined volume of law. There are rights of appeal to the Transport Tribunal, which has the status and some of the procedure of the High Court. From the Tribunal there is the possibility of further recourse to the Court of Appeal and even to the House of Lords.
9.32 In evidence we heard much criticism of this procedure and its legal complexity. To the many small firms of which the haulage industry is substantially composed it must present a formidable set of rules, practice and convention. We are sure that its legalism has developed despite the intentions of the original designers of the system, and that they would deplore it, no less than we do, as out of accord with the needs of the industry. The system, if it were to be amended so as to give effect to a tighter proof of need, would have to be put on a quite different footing. The Licensing Authority would have to have full discretion, constrained only by any policy guidance given by statute or in accordance with any directions which the Minister might give if thus empowered. The Licensing Authority would have to be entitled and indeed encouraged to take a broad view of factors which he could take into account, including particularly those wider aspects of public interest which have conspicuously failed to find any reflection in the working of the licensing system in the past. Public opinion would doubtless insist that the dissatisfied should still have access to some machinery for appeals.

ALTERNATIVES TO LICENSING AS A WAY OF INFLUENCING THE ROAD/RAIL BALANCE

9.33 In suggesting that licensing is not a good way to influence the distribution of goods traffic between road and rail, we have had in mind other possible means by which the same general aim of policy could be brought about if that were the Government's wish. In describing these we should not be taken as advocating the aim for which they might be used. We seek only to consider them briefly as tools alternative to licensing. We have considered a quota system; taxation; control of road transport rates; and the improvement of rail facilities or of the terms on which they are available to users.

Control of Quantity by Quota

9.34 If it were decided that there had to be a limit to the quantity of road transport of goods, it would be possible to fix the number of lorries for which licences would be issued. This number could be determined from time to time by ministerial decision, or by means of a formula linked to some economic index, for example of national production. Such an arrangement would have the characteristic that an upper limit would be set to the volume of road transport, at the level selected by the Government.

9.35 An immediate problem would be to decide the basis on which the licences should be shared out among the many who would want them. A system of proof of need would have all the disadvantages to which we have already referred above, and these would be much worse when there was a finite limit to the number of licences to be issued. The fortunate recipients of licences would be the beneficiaries of additional profits secured by the restrictionist policy.

9.36 An alternative would be for the Government to put the licences on the market, for sale by public tender. Licences could also be transferable, so that they could be bought and sold. The advantages of this scheme would be that, combined with a certainty of limitation of goods vehicles to the chosen number, there would be freedom of choice by users. Price would be the mechanism for sharing out the limited services of the prescribed capacity just as it is for most
other things. Those who felt their need was greatest would have to pay the market price commanded by the limited capacity. This scheme would raise revenue for the Exchequer.

9.37 Control on these lines would be flexible in the hands of the Government, and also flexible in allowing industry and trade freedom of adjustment to the situation brought about by the control. Its demerit is that it would inevitably reflect in higher prices for transport. But this is an inevitable penalty attaching to any general system of limitation of quantity of supply relative to demand, by quota as by any other means. How serious this effect would be would depend on the severity of the limitation on quantity.

Limitation of Quantity by Taxation

9.38 Road transport capacity could be limited and controlled by the imposition of additional taxation on lorries, their fuel and their other requirements. By raising the costs of road transport, the demand for its services would tend to be reduced.

9.39 The quantitative effects of taxation would depend on its level and form. We did not enquire into these aspects. If a policy of diverting goods traffic from the roads were to be implemented, a study of the various forms of taxation and the likely response of transport users to different levels of taxation would be imperative. In principle, however, any given degree of diversion could be achieved by the appropriate taxation.

9.40 As compared with the control of capacity by a quota system of licensing, control by taxation would have the disadvantage that the precise quantitative effect of a given level and form of taxation would be somewhat uncertain.

9.41 Ideally, if the sole purpose of the taxation was to alter the distribution of traffic, the taxes imposed should be so designed as to divert the desired volume and types of traffics, without falling on those users whose traffics were not to be diverted; for otherwise the diversion would be achieved not only at the expense (unavoidably) of the traffic to be diverted, but also at the expense (unnecessarily) of the remaining traffic. (This effect is common to all systems of control which apply generally and not selectively). It is unlikely that taxes could be so devised as to be ideally sensitive and selective in their incidence. However, the adoption of a selective approach in taxation presupposes that it is known which classes of traffics could more readily be diverted than others or which traffics the authorities wished to have diverted. But if this information were available, direct control by means of the proscription of such traffics by road would be as promising a solution as taxation.

Control of Rates

9.42 In many countries the government influences the distribution of goods traffic as between road and rail (often because of its direct financial interest in the railways) by way of control of road freight charges. These charges can either be exactly laid down, or the control can take the form of a prescribed "fork" or bracket within which the rate actually charged must lie. The relative attraction of road and rail can then be set or changed at the government's will; and the power can be used widely or narrowly, and according to commodities, distances, or any other factors which a rate schedule is capable of taking into account.
9.43 Despite the fairly wide use abroad of this instrument of control, we have grave doubts as to its practicability, at least in the circumstances in Great Britain. To influence traffic towards rail, it would be necessary to lay down a road freight rate which was above the economic level—i.e. above the rate at which the service could be provided efficiently by hauliers. Hauliers would find the prescribed rates to be attractive, and hence they—and new firms attracted by the rates—would compete for business by one or other form of disguised price cutting. They would tend to do this unless the total capacity of road transport were limited. It would be difficult, if not impossible, to eliminate such price cutting.

9.44 There would have to be a system of inspection of both the consignor’s and road carrier’s books and other documents to see that the due rate had been properly charged and paid for each transaction. Such inspection would no doubt be on a “sample” basis only, but even so the inspection effort would be very large to have any real effect. (Heavy goods vehicles make roughly 135,000,000* journeys a year in this country).

9.45 The question would also arise of ensuring that no concealed rebate was given to the consignor. Access to company records might be sufficient to show this up if it took the crude form of direct refund. But there would be many less readily detectable forms of evasion. Special carrier service might be provided without additional charge. Other services or goods not subject to freight rate control could be supplied free or at reduced rates. The loopholes seem to us to be legion.

9.46 An even more serious, indeed insuperable, difficulty would be that the own account operator could not be brought within a scheme to control road transport by the prescription of minimum charges. Since he does not pay an outside firm for his own transport services, no minimum rates could be imposed or enforced. Freedom to traders and manufacturers to carry their own goods would undermine any system of rate control designed to limit the volume of road transport services: the higher the rates were set, the more advantage would be taken of the option to carry one’s own goods. The volume of road traffic might indeed be increased if operations more effectively performed by hauliers were increasingly carried out by operators on own account.

9.47 In other countries, control of road freight rates is allied with close licensing control over both haulage and own account work. Given such controls, we see no need for rate control as well. Without such controls, rate control could not in practice be made to influence the distribution of traffic between road and rail.

Increasing the Attraction of Rail Services

9.48 The basic problem of influencing traffic to rail is that of distinguishing those traffics which could go that way with least disadvantage and then seeking to influence the balance between the use of road and rail for those traffics and no others. Given the flexibility in the use of lorries, and the complexity and variety of the uses to which the lorry is put, the approach to the problem by way of seeking directly to bias the balance against the use of roads is fraught with difficulties, as we have seen.

*See Appendix B (i), Table 21 and 22.
9.49 This situation invites attention to the alternative approach not of making road less attractive to the user, but of making rail more so. Through national ownership of the railways, the Government has considerable scope for influencing the situation. The possibilities in this direction seem to us to be wide, particularly bearing in mind the difficulties the railways have had in the post-war period. Vigorous steps are now being taken to improve the attraction of rail transport of goods. It seems clear already, from actual experience, that if British Railways concentrate their efforts on traffics for which rail has advantages to offer over road, considerable flows of traffic can be attracted to rail. It is clear that British Railways realise that there is yet a good deal more progress open to them in this direction.

9.50 It is conceivable, however, that the level of traffic which the railways can succeed in attracting, when they have made all the improvements open to them, might yet not be as high as government policy required. In that situation the difficulties of tackling the road end of the balance are formidable and the costs of so doing to industry and trade severe. Attention might instead be turned usefully to the "artificial" enhancement of the attractions of railway service. The meeting by the Exchequer of current railway deficits is already having this effect in practice, so no new point of principle would arise. Of course, direct subsidy would tend to remove a financial discipline valuable in any organisation. If, however, government policy required that the distribution of traffic between road and rail should be different from that which follows from the free play of economic forces, financial help to the railways, perhaps by way of accepting national responsibilities for some clearly definable element in their costs, would appear to have fewer disadvantages than the other courses we have discussed above, and would be well worth further study.

Summary and Conclusions

9.51 We find that, at least since the war, the licensing system has not had any significant effect in influencing traffic from road to rail. We do not see how the system could be altered, to give effect to such a policy if that were the wish of government, without an administrative machine of inordinate size, of doubtful efficiency, and without placing a heavy burden on industry and trade. Other courses are open to government. Of these, taxation is an obvious tool, but one which is difficult to use precisely in practice and which also would raise the costs of transport users. The improvement of the general efficiency of the railways, for which there seems to be considerable scope, would have a direct effect on the distribution of traffic between road and rail and would reduce rather than increase costs. If this did not carry matters as far as government felt was necessary a further measure would be to reduce rail freight charges by accepting certain rail costs as an Exchequer liability. Both the use of taxation and the improvement of the attraction of the railways seem to us greatly to be preferred, as instruments of policy, to any attempt to use a licensing system to divert goods traffic from the roads.
CHAPTER 10

Licensing and Congestion

Introduction

10.1 The lorry is a frequent target for criticism on the score of holding up other traffic, both by its slowness when moving and by its obstructive effect when loading or unloading on the highway. These characteristics can seriously reduce the efficiency of all road users, or if not their efficiency, their due enjoyment of the highway. In this chapter we examine the extent of the lorry’s share in congestion; whether quantity control by licensing could be used to relieve congestion; and whether there are other better ways than licensing for tackling the problem.

The Lorry as a Cause of Congestion

10.2 The lorry can cause congestion and delay in three distinct circumstances, to each of which different considerations apply; when moving on trunk routes; when moving in towns; and when stopped on the road in towns whether to load or unload or merely to await further work.

10.3 On inter-urban roads, lorries can cause delay to cars, and to other lorries able to move faster, because of their low power relative to their weight and because of their size. On a long hill a heavily laden lorry may be incapable of more than a fraction of the speed of most of the other traffic. When the road is narrow and winding, and the general level of traffic is above a certain minimum, the size of a lorry may make it impossible without risk to overtake for a long time, although its speed may be only half that which cars or some other lorries could safely travel. This effect grows worse if there are several faster vehicles each having to wait its turn to overtake. If two or more lorries are bunched together the obstructive effect can often apply for miles.

10.4 Clearly, no serious problems arise when the road readily allows overtaking (as e.g. on a motorway or dual carriageway, or on a smaller road with good sight lines and with a low volume of traffic). But despite the improvements already made in recent years to our trunk road network, there are still many main routes which are overloaded at least for some of the day; and on such roads and at such times, the lorry is clearly one of the causes of delay. This is reflected in the assessment of a lorry as equivalent to 3 passenger cars* when traffic flows on trunk routes are being measured.

The Lorry on Trunk Routes

10.5 During the normal working day, lorries are an important part of the volume of trunk route traffic. In a sample count of vehicles in a recent Ministry of Transport traffic census for trunk roads lorries accounted for about 20% of the total traffic in the 24 hours. But most of this lorry traffic was between 8 a.m.

*It is customary to measure mixed flows of traffic in "passenger car units" (p.c.u.s). A scale of equivalents, based on practical experience, rates a heavy lorry as from 1.75 to 3 p.c.u.s. according to circumstances.
and 5 p.m., while quite a large part of the total of cars passing the census points did so between 5 p.m. and midnight. During the “working day”, lorries over 30 cwt. were something nearer 30% of the total. And if the lorry was counted at its normal trunk road equivalent of 3 p.c.u.s, it accounted for about half the total volume of traffic during the working day.

10.6 The morning peak of traffic, even on trunk routes, includes the high level of lorry activity at that time. But by the evening peak many lorries are off the road for the night, and the lorry component in the evening peak of trunk route traffic is significantly smaller.

10.7 The long distance lorry on its night trunk run hardly interferes with the free flow of the relatively small volume of night traffic. This is an important point, as quite a high proportion of long distance lorry traffic is by night. British Road Services have said that 78% of their trunk mileage is done during such hours; and the Ministry’s census figures suggest that though this high proportion does not apply to all long distance traffic, it is a common feature of this kind of work.

10.8 A particular form of trunk route congestion which attracts much public attention is that which arises on main roads to resorts at holiday times or during weekends in summer. This congestion arises almost entirely from the volume of private car traffic, and the lorry is little involved.

Lorries Under Way in Cities and Towns

10.9 The lorry is less of a hindrance to faster traffic in cities and towns than on trunk routes because the speed limit in towns reduces the disparity between vehicles. But the lorry is still a cause of delay, particularly where it has poor acceleration or where its length has to be taken round a sharp corner. The smaller obstructive effect of lorries in towns is reflected in their being assessed at only 2 p.c.u.s for traffic flow purposes compared with the p.c.u. value of 3 on inter-urban routes.

10.10 The proportion of heavy lorries in urban traffic does not seem to differ from that on trunk routes. The detailed information of the London Traffic Survey suggests that lorries account for about 10% of the vehicles by number in the morning peak, for 25% during the middle of the day, and less than 10% in the evening peak. Again the lorry contributes quite markedly to the morning peak but much less to the evening peak.

10.11 As on trunk routes, the moving lorry in towns is not an obstruction until the volume of traffic reaches a certain level in relation to the capacity of the roads. This level is not usually reached except during the period 8 a.m. to 6 p.m.

Lorries Stopped in Towns

10.12 Any vehicle stopped at the kerbside may be an obstruction to the free flow of traffic including that of vehicles of its own kind. The bigger the vehicle the bigger the obstruction. Most heavy lorries are nearly twice as long and half as wide again as the ordinary car. They take up a large proportion of available space in a narrow street.
10.13 Lorries have to load and unload. Many premises, particularly in city centres, are not laid out so as to allow this except at the kerbside. Even where there is off-street space, entry to it may be difficult and slow for a big and awkward vehicle.

10.14 Loading and unloading at many places call for the presence of varying numbers of workers besides the driver. Most loading or unloading therefore takes place in normal working hours i.e. when the general level of traffic is at its highest.

10.15 The responsibility of the lorry for congestion cannot be considered in isolation. We recognise that the private car at the kerbside is also responsible for much urban congestion. We know of no measurements of the relative contributions of cars and lorries to urban congestion through kerbside parking, whether for long or short periods. There are more cars than lorries, and they tend to stay parked longer at a time, often all day. But a van delivering to a chain of London suburban shops may in total spend half its time stopped in various High Streets, and often cannot avoid double parking there.

The Effect of Licensing on Congestion

10.16 It is obvious that the lorry is indeed an important element in certain kinds of congestion. The Salter Conference saw this and in their recommendations for a licensing system proposed that road congestion should be one of the elements in deciding whether carriers’ licences should be granted. Their Report recommended specifically (Paragraph 111 D) that “the licensing authority shall grant the licence requested by a haulier except where the grant would be in whole or in part against the public interest on consideration of the following factors: . . . (ii) any actual or prospective congestion or overloading of the roads”.

10.17 It is not clear how the Conference expected this recommendation to work in practice. They may well have envisaged that Licensing Authorities should incline to refuse applications for more lorries, because of the congestion to which they might add, and that in suitable cases therefore the objections of the railways should be given particular weight. Their Report throws no light on the Conference’s ideas as to detail. No greater light is thrown on the question by the terms of the Road and Rail Traffic Act 1933, which broadly brought into effect the Conference’s recommendations as to a licensing system for road transport of goods. The Act made no explicit reference to congestion. It seems possible, though by no means certain, that it was in mind that the point should be met by the instruction to the Licensing Authorities to have regard “to the interests of the public generally” (a phrase now enshrined in Section 174(4) of the Road Traffic Act 1960). Again it was not clear how such a policy would have been put into effect. It may be that the practical difficulties of designing a licensing system which would satisfactorily cope with the problem of congestion (then far less marked than today) dissuaded the legislators of the time from seeking to prescribe detailed machinery. Behind this there may have been the thought that licensing would in any case keep transport of goods by road down to an irreducible minimum. There may also have been the thought that lorries were not the only vehicles contributing to road congestion, and that it would be invidious to single them out for special attention.
10.18 Whatever the intention of those who originally introduced the licensing system, the grant or refusal of licences has not depended on any detailed consideration of road congestion. In opposing licence applications, the railways have from time to time drawn general attention to road congestion as a reason why their services should be preferred. But congestion tends to be local and to depend on a coincidence of time and place, and the present form of carriers' licensing system could not readily be made to operate so selectively. It would be practically impossible to produce evidence that a given licensing decision, usually involving a fairly small number of lorries, would cause or add substantially to congestion at a given time and place. Congestion, at least by lorries, would only arise from the sum total of licences granted, not from any one of them. Moreover, no provision was made in the Act for anyone who could put forward the case for the general public interest to be heard at a licensing enquiry.

10.19 At best the net reduction of congestion by licensing at any given place or time can only have been insignificant. Indeed over the country as a whole, it is more likely that licensing has led to an increase in the number of goods vehicles on the roads, for the restrictions which licences impose tend to prevent some lorries from being more fully used. To this extent licensing is likely to have contributed to increased congestion.

Amendment of Licensing to Reduce Congestion

(a) By General Influence on Lorries

10.20 If the present licensing system does not reduce congestion, can it be amended so as to achieve this aim? As we have indicated in the previous paragraph the removal of licensing restrictions on the use of individual lorries would tend to reduce the number of vehicles on the road and hence the problem of congestion. But we do not think the gain here, in terms of reduction of traffic, is likely to be large. An alternative to removal of licensing restrictions would be amendment of the system so as to require a more stringent standard of proof before "need" was established and a licence granted. We have already discussed in the previous chapter the disadvantages which we see in such a course. Moreover the practical limitations and difficulties of bringing about the transfer of goods from road to rail are so great that road congestion, to which lorries are not by any means the only contributors, would at best be only slightly affected.

10.21 There would be most scope on the long distance inter-urban traffics, though even here only a part of lorry traffic would prove in practice to be suitable for carriage by rail. And bearing in mind the high proportion of lorry journeys which are short, much of this traffic on trunk routes cannot be on long distance work, but must consist of vehicles using the trunk road for part of more or less local journeys for which rail is no practical substitute. It must also be borne in mind that a reduction in long-distance road movement of goods may even increase urban congestion, because of the almost inevitable collection and delivery by road in towns.

10.22 In the towns and cities, where congestion is worst, a very high proportion of goods traffic is on journeys so short that use of rail is impracticable. Whatever discipline or pressures were applied, the net reduction in congestion would be insignificant.
By Specific Application to Congestion

10.23 Either on trunk routes or in towns, congestion occurs only at certain places and at certain times. A system of licensing to deal specifically with congestion would therefore have to refer directly to places and times of known congestion. Licences to operate would have to impose explicit restrictions as to times and places to which they applied. This is possible in principle but in practice too complex to be contemplated. Enforcement would present enormous problems. Moreover, to avoid unnecessary restrictions on lorry operators and users, it would be desirable to adjust the conditions in licences in the light of changing circumstances bearing on congestion. It would be virtually impossible to achieve such flexibility without undermining meaningful control.

10.24 Licensing is therefore a crude and ineffective means of dealing with congestion. Other ways which we have considered of tackling this problem seem to be more promising. Moreover, reliance on control of congestion through licensing of lorries is discriminatory in that it is not lorries alone which cause congestion. We see no reason why lorries, used predominantly in the country’s industry, trade and agriculture, should be the specially chosen subjects of measures for the control of congestion (except in so far as they alone cause particular types of congestion calling for specific remedial action).

Other Ways of Reducing Congestion

10.25 Better roads are the most obvious way of easing congestion, though in many towns the necessary degree of improvement to eliminate congestion may be prohibitively expensive. Improved traffic management measures—e.g. one-way streets, banned right-hand turns, loading and unloading bans, and special routes for lorries—have proved their worth in making better use of the roads we have already. Experience in the last few years in London has shown what can be achieved by them. Despite an increase in traffic of 10% off peak (15% in peak periods) speeds have gone up by about 20%*, almost wholly as a result of traffic management measures. We are sure there is still much scope for such measures.

10.26 Adequate provision in future of access to and space for vehicles within buildings requiring servicing by lorries can make a useful contribution to casing congestion. We are aware that such provision is often made. But much more could be done, and this line of approach merits further urgent consideration.

10.27 A prescribed minimum power/weight ratio for lorries (such as might arise from the “plating” scheme which we understand is being considered by your Department) would help both in easing inter-urban congestion and in speeding traffic flow within towns.

10.28 We have also considered whether it would be possible and desirable to introduce measures designed to spread road goods traffic more evenly over the 24-hour day. We appreciate the difficulties. There would have to be many major changes of methods and habits, and some of these would be unwelcome to those directly concerned. But the use of our highways for only a relatively small part of the 24 hours, and their abuse at some times of high traffic density, suggests at least one way of dealing with the incoming tide of motor traffic in cities.

10.29 Finally, the emerging possibility of road-space pricing as an instrument of control of congestion seems to offer better promise than the use of a licensing system.

Summary and Conclusions

10.30 Lorries contribute in varying degrees to traffic congestion on both trunk routes and in towns. Their contribution is significant during the working day in towns and on inadequate trunk routes, but is not otherwise serious. The present restrictions imposed on lorries by licensing reduce their operating efficiency and hence tend to increase their numbers and their contribution to congestion. The practical scope for transfer of road goods traffic to rail is too small to offer useful help in reducing road congestion. Licensing designed to ease congestion, by proscribing certain times and places for the use of the licensed vehicle, would be impossibly complex.

10.31 Direct methods offer best hope for improvement—better roads; traffic management including loading and unloading bans and special lorry routes; provision of good lorry access to buildings; higher power/weight ratio; more use of off-peak hours; and the pricing of use of road space.
CHAPTER 11

The C Licence

11.1 Separate reference to the C vehicle, and proposals for distinctive treatment of it, figured quite widely in views put to us. This was not perhaps surprising, in the light of the amount of public discussion of this aspect of transport in recent years. It might be helpful therefore if we set out separately our views on the question of the C operator, even though in so doing we must repeat some of the points we have made earlier. Wherever the facts of the situation allow, anything we have said already about licensing in relation to the various possible aims of policy applies equally to own account operation as to the hire or reward sector. But some critics have seen the C licensed lorry as particularly responsible for aspects of the present situation which they do not like, and they have therefore proposed measures applying only to such vehicles. It is with these matters that we deal in this chapter.

Criticisms of C Operation

11.2 Criticism was concerned mainly with the heavy C licensed vehicles (of which there are 199,000). The 565,000 small vans engaged on retail delivery and similar services and the 515,000 vans and lorries of between 1 and 3 tons unladen, also often on larger scale retail delivery and small wholesale distribution, despite their numbers, attracted no criticism in the context of licensing or of general transport policy. Indeed, given the kind of work on which they are engaged, it is hard to see how anything could be done to reduce their numbers without foregoing the services they provide. The contribution of these smaller vehicles to matters like road accidents, noise and smoke, and impact on amenity and congestion, are all closely comparable and indeed hardly to be distinguished from the impact of the private cars from which they are often derivatives, and with the functions of which to some extent they overlap. We do not therefore propose to say any more about them, and in the rest of this chapter any reference to C licensed vehicles should be understood to apply only to the heavy ones—i.e. weighing over 3 tons unladen.

11.3 Of the fleet of heavy lorries on C licence, the most usual point made was that their operations must be “wasteful” because by the nature of a C licence, limiting the operator to his own goods, his vehicles must run empty on one half of each journey. The critics also drew attention to the substantial increase in the number of C licensed vehicles, including particularly the “heavies”, in recent years. Much of this growth was attributed to “empire building” by the transport departments of the firms concerned. It was alleged that the boards of these firms often did not know whether their traffic was being carried economically in their own vehicles, and that it was not in the interest of the transport department to diminish its own importance by sending its firm’s goods by haulier or by rail, even where this was more economical for the firm as a whole. It was also said that the use of C licensed vehicles had grown because of the opportunities such vehicles offered for advertising the firm’s name or products.
11.4 All these factors were added up to make the C operator a substantial villain of the piece. His heavy vehicles were made responsible for much of the decline of rail traffic, for road congestion, for the growth in numbers of the obnoxiously noisy and smoking heavy vehicle and so on.

Review of Criticisms

11.5 If these criticisms were valid, they would constitute a strong indictment. However, when carefully analysed, their scope and force seem to be severely limited.

11.6 The cost consciousness and careful consideration of transport efficiency as demonstrated to us by a number of large firms suggests that while "empire building" may exist, it is not an important factor in the general context of C licence operation. Similarly, the advertising value of the vehicle is not material in business decisions about own account fleets. If there had been such value, the "plain van" would be exceptional; but it is often to be seen, and does not owe its anonymity always to the demands of its particular trade. The only criticism which did seem to us to be important enough to warrant close study was that of "waste", and we have considered this in some detail.

11.7 As to empty running, a recent Ministry of Transport survey* suggests:

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<tr>
<th></th>
<th>A licence vehicles over 3 tons</th>
<th>24%</th>
<th>B</th>
<th>41%</th>
<th>C</th>
<th>32%</th>
<th>A Contract</th>
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11.8 Thus it can be seen that although the heavy A licensed lorry has less empty running than the heavy C vehicle, the difference is not large. Certainly, for all its greater freedom of operation, the A licence vehicle does not usually manage to run loaded both ways, while the C lorry, for all its restrictions, does not run empty half the time.

11.9 But even if the empty running of A lorries was much less than that of those under C licence, this would not necessarily be a telling fact against C licensed operations. Own account operation is concerned in high degree with the food and distributive trades and with building and civil engineering. In these trades traffic back to base or even to a destination on the way rarely arises at the outward end of the journey. For example when a motorway is being built, much material goes in, but little comes out. On a circular delivery run to a chain of food stores, not only is there little if anything to go back, but the lorry must run progressively more empty as it sets down part of its load at each store in turn.

11.10 It is another feature of C licensed operation that it includes a high proportion of specialised vehicles. Tankers, bulk carriers and refrigerated vehicles are relatively more numerous in the C licence category than in the A and B categories. These specialised vehicles by their nature would generally be engaged in operations which do not yield return loads.

11.11 The degree of "waste" in current C licensed operation is therefore a good deal less than is popularly supposed. Nevertheless, it is inevitable, from

*See Appendix B (i), Table (s).
the fact that C operators are restricted to carrying their own goods, that there must be some degree of empty or light running which could be reduced but for the restriction imposed by the present licensing system. Removal of this restriction could contribute to higher efficiency. The scope for improvement here is probably not large, but such improvement is certainly worthwhile.

Ways of Reducing the "Waste" of C Capacity

11.12 There are two ways of tackling the problem—to curtail the number of C vehicles, or to remove the restriction which reduces their efficiency.

Curtailment of the Number of C Vehicles

11.13 The use of C vehicles could be curtailed by three techniques: by requiring the C operator to prove his need to run his own vehicles; by imposing a radius limit on his operations; and by levying a special high tax on him.

11.14 We are averse to any of these limitations in principle. They would reduce the effectiveness of the easy availability of own account operation as a stimulus to good service by professional carriers, whether by road or rail. They would also take away some of the freedom of the trader or manufacturer to provide for himself whatever service suits him best, a freedom to which we know trade and industry attached the highest importance, in our view quite rightly.

11.15 But even if we found no objection in principle to limitations on the number of C vehicles, we see disproportionate difficulties and problems in putting such proposals into practice.

11.16 The difficulties of operating a system of "proof of need" in respect of own account C licences are the same as those which we discussed at length in Chapter 9 on licensing and the railways. Modern road transport operations are complex and varied, and "need" is in this context a subjective term. We cannot see a system on these lines working satisfactorily.

11.17 The application of a radius limit to C licensed operations would also encounter considerable difficulties. There would almost certainly be cases where exemption would have to be allowed, and difficult problems of decision would arise in a system based on proof of need. Enforcement would also be difficult. And a radius limit even as low as 25 miles would only bear on one third of the tonnage of goods carried by heavy C licensed lorries* (two thirds of the total tonnage carried by these vehicles are on journeys of less than 25 miles already).

11.18 A high tax on C operation would discourage some traders and manufacturers. But we are clear from the many circumstances in which C licensed vehicles are operated that often the user would more readily pay a tax, even if it were high, than lose the use of what to him is a vital part of his production or distribution chain. It would be difficult to design a tax so as to bear only on those who were relatively better placed to use an alternative. The end result

*See Appendix B (i), Tables 23 and 24.
would be a general increase in the cost of transport for no material gain in terms of transport policy.

11.19 Even if the difficulties of curtailing the use of C vehicles could be overcome, the consequent gains would nevertheless be small for other reasons. If the former C operator still had the option of using a haulier it would be impossible to prevent him from arranging with the haulier to have the exclusive use of the haulier’s lorry or lorries. In other words, he would operate the vehicles exactly as before.

11.20 It is difficult to arrive at any realistic estimate of the savings in heavy road traffic, if any, that might be achieved by diverting C licence work to hauliers. It is interesting however to consider the effects if heavy C licence vehicles did as little empty running as present-day A licence vehicles. In 1962 heavy lorries under C licence ran about 3,000 million miles,* of which about one third was empty mileage. If this could have been reduced to one quarter (the A licence figure), there would have been a saving of about 330 million vehicles miles.† As the vehicles concerned were heavy vehicles, this would have been equivalent (under the normal traffic measurement convention) to 1 thousand million passenger car unit/miles. This hypothetical reduction, large as it sounds, would have been less than 1% of the estimated total traffic on our roads in 1962. It must be seen against an increase in total traffic at present running at about 5% per annum.

11.21 It is also possible to save vehicle miles by securing that part-loaded vehicles are more fully loaded. What information we have tends to indicate that C licence vehicles run with only small part-loads more often than do hauliers’ vehicles. Estimation of possible savings in this field is even more difficult than in that of empty running. As mentioned in Chapter 3, how much a vehicle can carry is in practice limited either by the weight or bulk of its load or by other characteristics such as how far the load can be stacked. There is therefore no easy way of defining and measuring the degree to which any vehicle is loaded. And it is characteristic of many C licence journeys that they entail the progressive delivery of loads to (or their progressive collection from) several points on a circular route. On such journeys the vehicle can hardly be full all the time. While we cannot therefore measure the scope for saving vehicle miles by loading C vehicles more fully, it seems unlikely that the scale of practical advantage can be large.

11.22 The railways would be scant beneficiaries of any pressure on C operators so long as road haulage services were available as an alternative. In other words, the first choice of the C operator would be a haulier to provide his services, rather than the railways. But if this option were denied him, and he were forced to use rail, it must be borne in mind that there are severe practical limits to how far the railways can or would wish to offer a satisfactory substitute service. Their recognised forte is in the field of long distance bulk movement. A very high proportion of heavy C licensed work is short distance, often not in bulk; and for this kind of work the railways are fundamentally unsuited or not even a practical means of transport.

†See Appendix B (i), Table (x).
Removal of Present Restrictions on C Operators

11.23 We think that the right way to tackle any reduction of efficiency imposed on C operators by the present licensing system is to free them from restriction as to what they may carry. In practice, it would be virtually impossible to deny them this freedom if entry into the hire or reward sector of the industry were made unrestricted. For otherwise the C operator could avoid any special limitations placed on him, by the simple process of securing the setting up of a haulage company for the sole purpose of carrying out his road transport work. There would ultimately be no way of stopping this kind of arrangement. It appears to us that the right course is not only to abandon restriction of entry into the hire or reward field but also at the same time to remove the restriction at present imposed on the C operator that he may only carry his own goods.

Summary and Conclusions

11.24 Criticism of C licensed operation of heavy vehicles has been much exaggerated. An element of “waste” is inherent in the restrictions which are imposed upon this kind of operation by the licensing system. We do not think that this should be dealt with by further restriction of C licensed operation, which is liable in the end only to substitute one inefficiency for another, but rather by removing the existing restrictions. Indeed, such removal is in practice inherent in any freeing of the haulage sector of the industry from restrictions on entry.
CHAPTER 12

Track Costs

The General Relevance of Track Costs to Licensing

12.1 We had much evidence on the question of comparative track costs by road and rail, and there seemed to be hope in some quarters that we would arbitrate on this highly controversial and long standing problem. We were for some time uncertain how far it came within our remit, and we gave careful consideration to this. We finally decided that while the question was of some relevance to us, in so far as it bore on the taxation or subsidisation of road haulage, it was not essential to the discharge of our duty to try to pursue it to finality. Nor was it necessary for us to go into the question of the relative costs of carrying traffic by road or rail (nor for that matter by sea or air).

12.2 The terms on which road transport services are offered are influenced by how much road users, or particular classes of them, have to pay for the use of the roads. If they do not have to pay adequately for the use of roads, through taxation or otherwise, their services could and possibly would be supplied at less than the full cost of providing them. Any subsidy, whether hidden or overt, would lead to an increase in the use of road transport; and such an increase would not be justified economically so long as other forms of transport had to price their competing services on the basis of their costs including their track costs. Thus the incidence of road costs affects the economic use of resources in all forms of transport. It is conceivable that a licensing system might be used to reduce the number of lorries so as to counteract the effect of any subsidy to lorries which may be present as a result of the public provision of roads.

12.3 The railways are in principle required to pay directly for all the costs of providing and maintaining the lines on which their trains run, and of signalling, lighting and policing their lines; and to adjust their charges accordingly. (We are aware, however, that for some years the railways have in fact been operating at a loss, which means that the payments made to the railways by rail users have been insufficient to cover total costs of operation, including track costs. In this sense, some rail users have been “subsidised”).

12.4 Road haulage operators do not pay directly for the use of the roads on which their vehicles run. With trivial exceptions they are allowed “free” use of the roads for running and parking; and public authorities meet the cost of policing, traffic control and lighting. But this is of course only part of the account. In the tax on fuel and the annual excise duty on vehicles used on public roads, road users pay substantial taxes the equivalent of which are not paid by the railways. The taxes on road users no longer take the implied form of payment for the use of roads, but are part of general Exchequer receipts. The payment of these taxes cannot however be ignored in considering the cost of the facilities provided by public authorities.

12.5 It is no part of our task to look into the costs of running a railway. The British Railways Board in their evidence provided us with detailed figures,
but we are in no position to comment upon these. Nor do we think it is for us to do so. It is also no part of our terms of reference to say whether the money spent on the road system should be recouped through taxation or to say how road costs should be shared between different classes of vehicles. The Salter Conference recommended the adoption of detailed schemes of road vehicle taxation. But the Conference’s terms of reference, unlike our own, included “the incidence of highway costs in relation to the contributions of the different classes of mechanically propelled vehicles”. We decided we were only required to consider whether a licensing system could serve to re-adjust the balance between road and rail if it were to be shown both that this was being upset because lorries were paying in taxes less than their share of the cost of providing and maintaining the roads, and also that this under-payment could not otherwise be corrected.

Evidence from the British Railways Board

12.6 In evidence the British Railways Board said that they were not seeking protection through licensing of road goods transport. But the best distribution of traffic between road and rail could only be made if road users were paying their fair share of the costs of the road system. In their “Report on the Reshaping of British Railways” the Board had argued that the railways were inherently unsuitable for many of the tasks which they had performed in the past. The system was being reorganised in order to enable them to compete more effectively for those traffics for which they had inherent advantages. In practice competition between road and rail was primarily restricted to trunk routes.

12.7 The Board did not argue that road users as a whole were paying less than the cost of providing the road system. They had confined their attention to the kind of road and rail operations in the goods field which they considered to be in serious competition with each other. Their “Study of the Relative True Cost of Rail and Road Freight Transport over Trunk Routes” first estimated the costs of building a new motorway or trunk road as compared with that of building a new railway. Then they added to these costs the respective costs of operating heavy goods vehicles or the costs of operating either traditional forms of railway freight transport or the proposed liner trains. The Board concluded that on the assumption of existing rates of usage of either road or rail track, the cost of the entire system, per capacity ton mile, was twice as high for road as for rail. They also concluded that vehicles of 10 or 16 tons capacity running on new motorways or dual carriageway trunk roads were paying in fuel tax and excise duties between one-third and one-half of the share of road costs which the Board’s study attributed to them. If this were true road operators engaged in trunk haulage were in effect being heavily subsidised to the detriment of the railways.

Evidence from the Ministry of Transport

12.8 We also received evidence from your Department about the distribution of road costs between different classes of vehicles. This study covered the road system as a whole and sought to show the limits between which an equitable allocation of road costs could be made to different classes of vehicle. It assessed
the capital cost of the road system both on the basis of actual expenditure in a given year (1962) and alternatively as the annual interest payments on the capital sunk in the road system. Other costs (maintenance, cleansing and snow clearing, lighting, policing, administration and the cost of accidents not covered by insurance) were divided by the Department between different vehicle classes according to a number of different methods (by vehicle miles, passenger car unit miles, laden ton miles, etc.) as appropriate to each kind of expenditure, giving upper and lower limits in the calculations where necessary.

12.9 We compared the results of these calculations with estimates of the taxes paid by various classes of vehicles. The comparison showed that each class of vehicle was paying more in taxes than its share of road costs, but that the extra payment by heavier lorries was much less than that of lighter vehicles. The Ministry agreed that there were other methods of making the calculations which might yield different answers.

Evidence from Road Interests

12.10 We also received evidence on track costs from the British Road Federation, the Road Haulage Association, the Transport Holding Company and the Traders Road Transport Association. Memoranda put to us by these bodies were directed mainly at criticising the methods used by the British Railways Board in arriving at their conclusions that heavy vehicles were not paying enough for the use of the roads:

(i) it was said to be unfair to base rates of vehicle taxation on only a limited part of the road network. Even in the case of trunk routes it was unrealistic to assume that all trunk roads were new roads built to modern standards. Since vehicle taxation could not be varied according to the use made of different kinds of roads the only reasonable basis on which to assess taxation was the cost of the road system as a whole;

(ii) much of the high costs attributed to heavy vehicles by the Board resulted from the assumption that the greater part of the cost of building modern roads was due to a need to cater for heavy vehicles. The Board had estimated that the cost of a motorway built for private cars only would be some £200,000 per mile as against the cost of a full standard motorway of £700,000 per mile. Studies by your Department's engineers and by a firm of consulting engineers indicated that in fact not more than 20% of the cost of motorways could be saved by building for light vehicles only;

(iii) the Board had misapplied the results of tests carried out by the American Association of State Highway Officials into wear and tear on roads, to charge too high a proportion of maintenance cost to heavy vehicles;

(iv) the Board had failed to allow for increasing traffic which would spread the cost of the new roads over a larger number of vehicles and so reduce the cost per vehicle.

12.11 In general the memoranda from road interests were content to rely on the cost allocation suggested by your Department in its evidence to us, although they thought that in some respects it was unfairly weighted against
heavy lorries. Only the Transport Holding Company had produced independent estimates. They compared several methods of calculating road costs and did separate calculations on trunk, classified and unclassified roads. In every case they found that lorries paid more than enough in tax to cover their road costs.

12.12 The Road Haulage Association and the Transport Holding Company went on to argue that there was no “correct” allocation of road costs, that any allocation must be to some extent arbitrary and would depend upon the objectives which the Government were trying to pursue. They insisted, however, that the track costs argument could not be used to justify levying extra taxation on heavy goods vehicles.

Evidence from the Road Research Laboratory

12.13 All the track cost studies mentioned above were founded on the notion of determining the total cost of the provision, maintenance and control of the road system (or part of it) and of allocating this total among the various categories of users. The Road Research Laboratory used a different approach. The calculations in their study did not purport to estimate the charges which would have to be levied on road users to recover the cost of the road system. Instead, the additional costs caused by a small increase in the volume of traffic were estimated. Two alternative types of estimate were made. In the first it was assumed that there was no additional road capacity, so that the postulated increase in traffic imposed additional costs on all road users by slowing down traffic flows, and also caused an increase in road maintenance costs due to the more rapid wear of road surfaces. In the second type of estimate, it was assumed that the speed of traffic flows was maintained unchanged by adding to the road capacity (by new building) to accommodate the increase in traffic. Here the additional costs took the form of the outlays on the additions to the road system, expressed on an annual basis. Estimates of these costs for rural roads were made on each of these two bases, and for urban roads on the first method only. The costs were estimated separately for an increase in heavy vehicle traffic and in light vehicle traffic, the dividing line being a vehicle of 1\frac{1}{2} tons.

12.14 The general conclusions were that on rural roads the present taxes on heavy vehicles exceeded the (marginal) costs of using the roads as defined and estimated in the study. In urban areas, on the other hand, the taxes paid were considerably lower than the estimated costs, the deficiency reflecting the high degree of road congestion already present in many urban areas, and the more pronounced slowing-down of traffic caused by a small addition to traffic.

Review of Track Cost Studies

12.15 We felt that there were weaknesses in the case presented by the British Railways Board. The estimates made by highway engineers convinced us, in the absence of informed comment to the contrary, that the Board had over-estimated the savings on the construction of roads for light vehicles only. Moreover, their argument depended quite heavily on their assumption that a new road or railway would be used at the present level of goods traffic between the places connected by the route. This is arbitrary and bears no necessary relation to capacity or to what may happen in future. We also had some doubts on the appropriateness of the use of p.c.u. values in some of the Board’s estimates.
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12.16 All but the Road Research Laboratory's approach to the allocation of track costs start from analysing what would happen if a public corporation was responsible for running the road system and for paying its way. They seek to establish the items which ought to appear in the accounts of such a corporation and to work out what charges ought to be levied on different users of the system. But a public corporation in this position would have no difficulty in thinking of numerous different tariff structures to raise the required revenue. There are some road costs which can be directly attributed to particular types of vehicle. These are costs which would be avoided if there were no vehicles of that type on the roads. It is reasonable to assume that these costs would be recouped directly from those users. But many other costs are common to all types of user. These costs would have to be incurred whether or not a particular class of road user used the roads. There does not seem to be any obvious reason why one method of raising revenue to cover these costs should be preferred to another except a subjective judgement as to what seems equitable or expedient in the circumstances.

12.17 It is not for us to say whether charges for the use of roads should be based on the notion of costs used in the Road Research Laboratory's study; nor is it for us to assess the reliability of the estimates presented in the study. (We noted that the findings were presented to us with frequent references to the wide margins of error in the estimates and the inadequacy of the basic data).

12.18 More generally, the approach adopted by the Laboratory is in our view more appropriate to the question of the control or reduction of congestion on the roads than to the question which faces us—competition between road and rail as it may be affected by payment by users for the tracks they use.

Social Costs and Benefits

12.19 A further difficulty in seeking to pursue the track costs argument is that it almost inevitably has to leave out a number of factors. Mention was made in evidence to us of social costs which should come into the reckoning; and some witnesses pointed to the need for recognising the social benefits of road transport. We do not know, however, on what basis allowance should be made for the various items of social costs and social benefits. Methods for calculating them are in their infancy, and necessarily include major elements of estimation, about which there is wide scope for the exercise of judgement and for differences of opinion. It seems to us that any adjustment to be made for the social costs and benefits of the two modes of transport is ultimately a matter for government decision. The importance of this decision needs no emphasis from us in view of its effects on the public generally and on users of transport services, and hence on the economy as a whole.

How Far Lorries Pay their Track Costs

12.20 The British Railways Board sought to show that heavy lorries engaged in trunk haulage were paying substantially less than their true road costs. Other interests suggested that road users in general, including heavy lorries, were paying far more than they should. The Road Research Laboratory, by analysing the rural and urban situations separately, provide partial support
for both schools of thought. But the Laboratory's estimates do not support the view that long-distance road haulage is "subsidised" by way of road costs in its competition with rail. For long distance movements, the area in which road and rail are mainly in competition, most of the road hauls are on "rural" roads where taxation was calculated by the Laboratory to be in excess of costs. On the other hand, on urban roads where heavy lorries were calculated by the Laboratory to pay less in tax than their imposed costs, road transport cannot in practice be replaced by rail. The implicit subsidisation (according to the study) of road haulage on urban roads cannot therefore be significant for competition between road and rail.

12.21 The only certain conclusion we can draw from all the evidence we have received is that no method of assessing road costs secures general acceptance, and we are not in a position to arbitrate finally upon the merits of different approaches to this problem. Moreover, nothing in the evidence put to us gives us reason to think that there is any hope, at this stage of thought or knowledge, of arriving at such a solution. This is no new problem. We recall the views of the Royal Commission on Transport when it said in its Report:

"We now approach the most difficult subject of the relationship between highway expenditure and the taxation of mechanically propelled vehicles. A considerable volume of evidence has been directed to this matter, and we confess that, in spite of the great amount of thought we have given to it, we have been unable to reach a conclusion which we could confidently put forward as demonstratively and mathematically sound. Certain facts and statistics are available which may be used in a variety of ways according to the ingenuity of the person using them and the conclusion which he hopes to prove".*

**Licensing and Track Costs**

12.22 Having said that we doubt whether a final answer is yet possible and having pointed to the intractable problems of attributing common costs to particular classes of user, we obviously cannot say that the present amount and balance of taxation are right. But we are not convinced by the evidence before us that the present rates of taxation of heavy lorries are low relative to the track costs which can be properly attributed to them and hence that a restriction by licensing of the number of lorries would be justified on these grounds to secure the most economic use of transport resources. Moreover, we believe that if there were a subsidy element and rates were low relative to such costs, Exchequer action could redress the balance if this were thought wise. The Government could adjust the rates and bases of taxation of road users in order to ensure that each category paid its required contribution towards the cost of the system. This would be a much more realistic and logical approach than any attempt to try to achieve the same ultimate effect by licensing.

12.23 Finally, nothing we have said should be taken to mean that the Government should not raise revenue from any mode of transport in excess of public expenditure directed to it. Nor are we suggesting that increased taxation of road transport should not be imposed in order to secure a transfer of traffic from road to rail, if that be the deliberate aim of government policy. But in so

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*Royal Commission's Final Report, paragraph 224.
saying, we should make it clear that we are not advocating such a policy; and we would in any case think it vital that a detailed study of the probable effects of such action, not only on the interests of road users but more generally on the economy as a whole should have been made before any such course were embarked upon.

**Summary and Conclusions**

12.24 The question of track costs has a narrow but important relevance to our work. None of the approaches put to us seemed to be a final answer to this long standing and vexing problem. We were satisfied that the present situation did not of itself make it essential to continue a system of quantity control of lorries through licensing.
Proposals made to the Committee for the Reform of the Licensing System within its Present Broad Framework

13.1 Many of the memoranda put to us either argued the case for some kind of quantity control by licensing or were based on the assumption that such a system of control would be continued. These memoranda were devoted primarily to criticism of detailed aspects of the present system and to advocacy of proposals for its amendment within its existing framework.

13.2 We have concluded, however, that the present system of licensing has no merit in relation to any of the aims of transport policy and has certain positive disadvantages. We see no practical way of amending the system to repair these serious defects. There is therefore no need for us to consider any of the proposals premised on the continuance of the system. However, if we did not note some of these proposals, we should fail to show how the present system appeared to many who are affected by it, and their views would go unrecorded. We therefore set out briefly the main points (we cannot list them all, for some concerned quite minor and esoteric matters); and in paragraphs 13.37 and 13.38 we add a few general observations.

Control of A Licensed Hauliers

13.3 It was suggested that the present freedom of A licensed hauliers to carry return loads without specific regard to their "normal user" (see paragraph 2.50) undermined the power of the Licensing Authorities to control capacity and should be removed.

13.4 It was suggested also that the doctrine of "normal user" was uncertain in operation and difficult of enforcement. There was no universal agreement, it was said, among Licensing Authorities about the extent to which a haulier should be free to depart from the intentions expressed in his application for his licence, before being regarded as in breach of his "normal user". Statements of intention were drafted by applicants themselves or by their advisers and might be amended orally during the course of inquiries. Often therefore they were open to divergent interpretations. Licensing Authorities could not prosecute the holder of an A licence who infringed his "normal user" as they could the holder of a B licence who broke a condition of his licence.

13.5 It was strongly argued on the other hand that a bona fide public haulier once licensed should be free to carry goods with the minimum of restriction and that the idea of "normal user" had been unjustifiably grafted on to a system originally designed to leave A licensed hauliers free in this way.
B Licences

13.6 It was widely represented to us that the B licence had developed in a way not originally intended. It was said that the licence was designed to meet the needs of those traders whose own account operations could be made more efficient by a limited amount of carrying for hire or reward. "Unfair" competition with the public haulage industry was to be prevented by attaching restrictive conditions to the licence. But because existing carriers, particularly the railways, objected less strenuously to applications for B licences (where their interests could be protected by the imposition of suitable conditions) they were widely resorted to by professional hauliers. In particular, newcomers to the industry found it easier to obtain B licences with restrictive conditions than A licences. Many professional hauliers now therefore operate under these licences. This state of affairs was criticised both because it was said to have led to undue restriction of professional hauliers under B licences and because it had allowed undue proliferation of small haulage firms.

13.7 As against the argument that B licensed hauliers were already unduly restricted, it was suggested that a right of objection and appeal should be given against an application to vary the classes of goods permitted by the conditions of a B licence. (No such right at present exists although the Act allows objection against changes in geographical limits laid down in the conditions).

Contract A Licences

13.8 Various proposals were made for the abolition of Contract A licences. It was put forward as an objection to their existence that they provided a relatively easy method of entry to professional haulage. The Court of Appeal decided in the Arnold Transport case* that evidence of traffic from one customer alone could be sufficient to justify the grant of a full A licence. A haulier employed under a Contract A licence could sometimes bring evidence that his customers required him to cheapen his services by accepting back loads from other customers and that if he did not do so he would lose his contract. This under the conventions of the system made it difficult for the Licensing Authority to refuse to grant an A licence.

13.9 It was argued also that Contract A licences were unnecessary because traders could get the service they required by negotiating a suitable contract with an existing A licensed haulier. Alternatively the Contract A licence should be treated as a form of B licence limited to carriage for one customer alone. If then the holder established that it was desirable for him to carry return loads for others he could be granted a variation of conditions without being admitted to the greater freedom of a full A licence.

Lack of Information for Licensing Authorities

13.10 Several witnesses argued that under the system as it stood Licensing Authorities lacked adequate information on which to base their decisions. When the Licensing Authority had to decide an application for increased capacity, he usually had evidence of a customer's need for the haulier's services and evidence

*Arnold Transport (Rochester) Ltd. v British Transport Commission and Others [1961] 3 All E.R. 495
brought by the objectors that there was already sufficient capacity to meet the alleged demand. It was said that many customers are extremely reluctant to give evidence which might involve disclosing commercial information of value to their competitor, or to submit to the ordeal of cross-examination. On the other hand, others might be willing to support almost any application so that they could benefit from sharper competition. Existing hauliers might not wish to take the trouble to object or might have agreements with other hauliers that they would not object to each other's applications. In the past the practice of the railways to object almost automatically to all applications for new A licences had ensured that evidence of some at least of the existing facilities had generally been available to Licensing Authorities. But this might not always be the case in the future. Licensing Authorities were not bound to grant an application simply because there were no objections to it, and they could draw on their own knowledge of the facts of the situation. But it was very difficult for them to act without evidence of the extent of haulage facilities in their district and in the districts other than their own to which the vehicles would travel. It is relevant to mention here that it was suggested that Licensing Authorities should be given the powers, which at present they lack, to subpoena witnesses and administer oaths.*

13.11 A number of witnesses suggested that there was another weakness in the machinery. An application for a new licence has to be made to the Licensing Authority of the Traffic Area in which the applicant has his operating centre. Evidence of supply and demand would be very largely confined to that area but traffic might be drawn from other areas too.

Suggestions for National and Local Licences

13.12 It was suggested that to meet these and other difficulties there should be two main classes of licence for public hauliers:

(a) a national licence—giving no limit on the range of operation, and

(b) a local licence—by which the haulier would be limited to (say) a fifty mile radius of operation.

Each of these two classes would be subdivided into licences which enabled hauliers to operate freely without restriction, and licences to which various types of conditions could be attached by the Licensing Authorities. Applications for national licences would be considered by a National Licensing Authority and applications for local licences by Local Licensing Authorities. The Licensing Authorities should attach less importance than at present to the evidence of customers and objectors. They should attach primary importance to economic statistics such as indices of industrial production, and in the case of existing hauliers applying for increased capacity to the extent to which their fleets are already fully utilised.

Legalistic Administration of the System

13.13 We received a considerable amount of evidence to the effect that the system had become unnecessarily hampering to trade and industry, and to hauliers, because of a too legalistic approach to its administration. It was said

*See both the Report of the Committee on the Licensing of Road Passenger Services, H M S O., 1953 paragraph 89 and the Report of the Committee on Administrative Tribunals and Enquiries, Cmnd 218, H M S O., 1957 paragraph 92 for views relevant to this suggestion.
that the Transport Tribunal in particular relied too heavily upon precedent and technical points of law in reaching its decisions. It was suggested that the thickets of case law which had grown up as a result of Tribunal decisions over the years were impenetrable by the average layman and that sometimes even the lawyers expert in licensing matters got lost in them. Applicants and objectors were bound to take legal advice in preparing their cases and generally they found it necessary to be legally represented in hearings before the Licensing Authority. This led to multiplication of further points of law.

13.14 A few witnesses suggested that an over-elaborate structure of precedents had been built up because the criteria laid down in the Act for the guidance of Licensing Authorities were too broadly drawn. For this and for general reasons it was said that the criteria should be elaborated.

**Appeal Machinery**

13.15 A number of suggestions were made for changes in the appeal machinery. Some of these were connected with the view mentioned above that the system had become too legalistic.

13.16 Abolition of any right of appeal from Licensing Authorities' decisions was proposed. Other witnesses suggested that appeals should be only on points of principle and that the Tribunal should not substitute its discretion for that of Licensing Authorities. Yet other witnesses suggested that on the contrary the Tribunal should conduct a complete rehearing on appeal so as to exercise its discretion with the fullest possible knowledge of the facts.

13.17 It was also suggested that the constitution of the Tribunal might be altered in various ways. It was proposed that it should include an economist and that it should always have members with direct experience of haulage and of the lower licensing courts.

**Hire of Vehicles under C Licences**

13.18 The provisions of the Act under which holders of C licences can hire unmanned vehicles for their own use were widely criticised, by hauliers and those concerned with the administration of the system, as leading to abuse.

13.19 Against them, it was argued that the facility was valuable and that the allegations of abuse were much exaggerated. The facilities allowed the trader or manufacturer to supplement his C licence fleet by hiring unmanned vehicles to meet seasonal fluctuations or to expand his operations without incurring capital expenditure on increasing his fleet.

13.20 The practice is of long standing, but we were given to understand that its adoption grew considerably during the period of nationalisation. Its abuse consisted in hiring out vehicles for short periods to numerous hirers while evading the requirements that the hirer must supply his own drivers, by setting up an agency to supply the drivers for him. This form of operation was tantamount to operating an open haulage business. It was also possible for the hirer to present as evidence of need in an application for an A licence the work which he had been doing under a C hiring margin, thus obtaining some advantage over an applicant who started from scratch.
13.21 Various suggestions were made for dealing with the matter. One was that the vehicles to be hired should be specified on the licence of the hirer. Another was that the facility should be abolished and the need met by a form of short-term Contract A licence. A third was to set up a register of vehicle hirers, who would have to record the hiring out of their vehicles and who would be subject to appropriate rules about minimum periods of hire.

**Farmers' Concession**

13.22 We also received a number of complaints about the concession whereby farmers' vehicles while operating under C licence may carry for neighbouring farmers for hire or reward. It was strongly suggested that a concession originally aimed at helping bona fide farmers was being abused by persons who were conducting haulage businesses under the guise of being farmers. (This is possible because the Road Traffic Act 1960 grants the concession to a “person engaged in agriculture”, and “agriculture” has in law a very wide meaning®. The Act permits carriage of goods for hire or reward on behalf of another “person engaged in agriculture”... “in that locality”—and this second phrase also can be interpreted very diversely).

13.23 Spokesmen for the farmers did not seek to show that there was no abuse of the concession. But they did stress the great value of the concession to genuine farmers in remote areas, and argued that it should be continued with whatever safeguards against abuse might be agreed.

**Takeover of Limited Companies**

13.24 Under the Road Traffic Act as it stands licences belonging to a haulage business run by an individual or a partnership cannot be transferred to a purchaser of the business. The purchaser must apply for a new licence in his own right. Special provisions in the Act enable him to obtain the licence with little difficulty if the business is a going concern and if he is not disqualified from holding a licence by reason of previous offences as a carrier. If the business is moribund, however, as is sometimes the case, and the purchaser is in effect attempting to buy access to haulage with a view to cutting a niche for himself at the expense of other hauliers' traffic, the Licensing Authority may refuse his application.

13.25 It was pointed out to us that this control did not operate in the case of limited companies. Licences belonging to haulage businesses run by limited companies vest in the company and not in any individual. Control of a moribund business, if it was a company, could therefore pass without the matter coming to the notice of a Licensing Authority.

**Holding Companies' C Licences**

13.26 The act permits vehicles used by a holding company to carry goods under that company’s C licence on behalf of subsidiary companies of which it is the beneficial owner of not less than 90% of the issued share capital. It was represented to us that no harm would be done and a useful gain in the efficiency

*Under the Agriculture Act 1947 (S.109(3)): “Agriculture includes horticulture, fruit growing, seed growing, dairy farming and livestock breeding and keeping, the use of land as grazing land, meadow land, osier land, market gardens and nursery grounds, and the use of woodlands where that use is ancillary to the farming of land for other agricultural purposes”.*
of some C licence fleets would accrue if this concession were extended to subsidiary companies more than 50% owned and if vehicles licensed by one subsidiary could carry for another.

**Holding Companies and Contract A Licences**

13.27 It was further suggested that the concession in respect of interworking under holding companies' C licences could usefully be extended to interworking under a Contract A licence granted under a contract between a haulier and a holding company.

**Duration of Licences**

13.28 A and C licences at present have a maximum life of 5 years but B licences a life of only 2 years. Various suggestions were made for changes in the duration of licences, including a suggestion that all licences should have a life of 5 years.

**Display of Licence Conditions**

13.29 It was suggested that vehicles subject to restrictive conditions should display the conditions in question as an aid to enforcement.

**Definition of Capacity of Vehicles**

13.30 A number of witnesses pointed out that the unladen weight of a goods vehicle was an unreliable indicator of its carrying capacity. It was suggested that when introduction of a "plating scheme" (see paragraph 6.51 above) made the carrying capacity of each vehicle readily ascertainable, this should be used as a measure whenever appropriate.

**Licensing by Capacity of Fleet**

13.31 It was also suggested that, at least for some carriers, licensing should be in terms of the total capacity of their fleet rather than of individual vehicles.

**Licensing of Trailers**

13.32 It was suggested that trailers, and in particular the semi-trailers of articulated vehicles, should be individually identified in licences instead of as at present authorised by a description of type and weight. This change would tighten the control exercised by Licensing Authorities.

**Definition of "Goods Vehicle"**

13.33 Section 191 of the Road Traffic Act 1960 defines a goods vehicle as "a motor vehicle constructed or adapted for use for the carriage of goods, or a trailer so constructed or adapted". It was suggested that this definition was insufficiently precise.

**Deposits from Applicants and Objectors**

13.34 It was suggested that applicants and objectors should be required to lodge deposits which would be forfeit if without due notice they failed to appear at a public inquiry called to consider their case. It was said that the practice of lodging precautionary or merely delaying objections without attempting to sustain them was fairly prevalent and caused waste of valuable time to Licensing Authorities and others concerned in the proceedings.
Use of Drivers Not Employed by Licensee

13.35 The Act lays the responsibility for the correct licensing of a goods vehicle upon the employer of the driver. A licence permits only the employer to "use" the vehicle and no vehicle can be specified in more than one licence. As a result a carrier is unable legally to make arrangements for interchange, for example, of drivers on vehicles worked jointly with an associate at the opposite end of or within a trunk route. It was suggested that this restriction should be lifted.

Exemption of Vehicles Operating Within Limited Radii

13.36 We also received proposals for exemption from various requirements of licensing of vehicles operating within limited radii. Considered schemes on these lines were put forward. The general object was to remove from unnecessary control classes of vehicle unlikely to affect the major streams of road transport.

Conclusions

13.37 We make three points on this list of proposals for reform of the present system. First, some of the suggestions are incompatible each with the other. Some seek to increase control, some to loosen it, sometimes both. Some would increase the complexity and legalism of a system which others said had gone too far already in this direction. Second, the meeting of some of the criticisms would involve problems of definition or of drawing boundaries. Even if new definitions could be found, we think these demarcation lines might well in practice prove no more satisfactory than the old. Third, some of the proposals made good sense to us and would have been put forward by us if we had decided to recommend reform within the present system of quantity control.

13.38 But seen in their entirety, the many criticisms of the system had two more telling effects on us. First, they showed that the present arrangements were a long way from satisfying even those who thought that the broad principles on which they were founded were right. Second, they were additional evidence of the complexity of the apparatus which had grown up, and which clearly would tend to increase as one refinement after another was applied to meet particular points. The net result of all the criticisms was to strengthen our belief that the system was ill-suited to present day needs.

(Signed)  GEDDES (Chairman)
W. L. BARROWS
WALKER CARTER
DAVID MILNE
VINCENT TEWSON
B. S. YAMEY
J. M. MOORE (Secretary)

2nd April, 1965.
Appendix A

List of Bodies and Persons who submitted evidence to the Committee.

Those who gave oral evidence as well as written evidence are marked *.
Those who gave oral evidence only are marked **.

Abnormal Loads Committee (Conference of Heavy Engineering Industry)
Archbolds (Freightage) Ltd.
Association of British Chambers of Commerce
Association of British Chemical Manufacturers
Association of Chief Police Officers of England and Wales
Association of County Councils in Scotland
Mr. A. W. Balne
Barnes and Tipping Ltd.
*Dr. M. E. Beesley
Mr. S. T. W. Benns
Mr. A. B. Birnie—Deputy Licensing Authority for the Scottish Traffic Area
*Mr. S. C. Bond
Boxfoldia Ltd.
*Bow Group
  British Electrical and Allied Manufacturers’ Association
  British Furniture Manufacturers’ Federated Associations
  British Mechanical Engineering Federation
*British Railways Board
*British Road Federation
  British Ships’ Stores Association
  British Tarpavers’ Federation
Burgess Webb and Squire Ltd.
Car Collection Company Ltd.
Chamber of Coal Traders
Chamber of Shipping
**Mr. C. N. Christensen
Mr. G. Claydon
Cold Asphalt Association
Contractors’ Plant Association
Co-operative Union Ltd. (Parliamentary Committee)
Department of Agriculture and Fisheries for Scotland
District Councils’ Association for Scotland
George Dominic Ltd.
Mr. C. S. Dunbar
Dunlop Rubber Co. Ltd.
**Mr. H. T. Dutfield
  East and West Ridings Regional Board for Industry
  East Anglian Carriers Ltd.
  East Midland Gas Board
  Eastern Regional Board for Industry
  Electrical Contractors’ Association
  Electrical Vehicle Association of Great Britain
Electricity Council
Maj. Gen. A. F. J. Elmslie—Licensing Authority for the North Western Traffic Area
*Mr. J. Else—Licensing Authority for the West Midland Traffic Area
Farmcraft Ltd.
*Federation of British Industries
Federation of Civil Engineering Contractors
Federation of Manufacturers of Construction Equipment
Federation of Master Builders
Federation of Wholesale and Multiple Bakers (Great Britain and Northern Ireland)
*Sir John Fisher
General Council of the Bar
General Post Office
Glacier Foods Ltd.
Goodier and Sons Ltd.
Hall and Ham River Ltd.
*Mr. J. A. T. Hanlon—Licensing Authority for the Northern Traffic Area
*Mr. A. J. Harrison
Hatter Bros. (Grays) Ltd.
*Mr. C. R. Hodgson—Licensing Authority for the East Midland Traffic Area
W. Holgate Ltd.
Horticultural Trades Association
**The Lord Hurcomb
Ice Cream Alliance
Ice Cream Federation
Industrial Association of Wales and Monmouthshire
Institute of British Launderers
Institute of Iron and Steel Wire Manufacturers
Inns of Court Conservative and Unionist Society (Road Transport Licensing Sub-Committee)
Mr. R. R. Jackson—Licensing Authority for the South Wales Traffic Area
Mr. W. P. James
Law Society
London and South Eastern Regional Board for Industry
Longton and North Staffs. Transport Ltd.
Mr. C. J. Macdonald—Deputy Licensing Authority, Metropolitan Traffic Area
Mansion House Association on Transport
Mawby, Barrie and Letts—on behalf of:
Edwin Clark Ltd.
Cleansing Service (Southern Counties) Ltd.
Contract Gully Cleansing Ltd.
Garage Interceptor Cleaners Ltd.
G. W. Green (Contractors) Ltd.
C. W. Harrison (Contractors) Ltd.
C. W. Harrison (Western )Ltd.
Linggood Bros. Ltd.
Mechanical Cleansing Service Ltd.
J. Nicholls (Contractors) Ltd.
Purle Bros. Ltd.
Sweetways Sanitary Cleaners Ltd.
Tovey Transport Ltd.
A. E. Woodham (Cleansing Services) Ltd.
R. H. Cleare and Co.
Sludge Disposals Ltd.
M. and M. Mechanical Empties Ltd.

Metropolitan Boroughs' Standing Joint Committee
Midland Regional Board for Industry
Ministry of Agriculture, Fisheries and Food
*Ministry of Transport
M.T.S. (Yorkshire) Ltd.
G. E. Moore (Haulage) Ltd.
Mr. C. H. Mosier
*Mr. D. L. Munby

*Mr. D. I. R. Muir—Licensing Authority for the Metropolitan Traffic Area
National Association of Agricultural Contractors
National Association of British and Irish Millers
National Association of British Manufacturers
National Association of Corn and Agricultural Merchants
National Association of Frozen Food Producers
National Association of Furniture Warehousemen and Removers
National Association of Inland Waterway Carriers
National Association of Master Bakers, Confectioners and Caterers
National Association of Parish Councils
National Association of Wholesale Distributors of Frozen Foods
National Caravan Council
National Conference of Road Transport Associations
National Conference of Road Transport Clearing Houses

*National Council on Inland Transport
National Electrical Contractors' Trading Association
National Farmers' Union of England and Wales
National Farmers' Union of Scotland
National Federated Electrical Association
National Federation of Fishmongers
National Federation of Meat Traders' Association
National Federation of Wholesale Grocers and Provision Merchants
Mr. S. Nelson—Licensing Authority for the Western Traffic Area
North Western Regional Board for Industry
Mr. W. P. S. Ormond—Licensing Authority for the Eastern Traffic Area
Pedestrians' Association for Road Safety
Pilkington Bros. Ltd.

*Mr. G. J. Ponsonby
Mr. W. F. Quin—Licensing Authority for the Scottish Traffic Area
Retail Fruit Trade Federation
Railway Development Association

*Road Haulage Association
Road Research Laboratory
Road Roller Owners' Association
Mr. Gleeson E. Robinson
Mr. G. J. Roth
*The Lord Salter
Sand and Gravel Association of Great Britain
Sausage Manufacturers' Association
Scottish Regional Board for Industry
Scottish Counties of Cities Association
Scottish Federation of Fishmongers
Mr. E. J. Shaw
Showmen's Guild of Great Britain
Society of Motor Manufacturers and Traders
South Eastern Gas Board
South Western Regional Board for Industry
Standing Joint Committee of the R.A.C.—A.A. and R.S.A.C.
*Sir George Stedman
*Mr. J. M. W. Stewart
*Mr. G. Squibb—President of the Transport Tribunal
Tate and Lyle Group of Road Transport Companies
Mr. H. J. Thom—Licensing Authority for the South Eastern Traffic Area
Mr. C. C. Toyne—Senior Mechanical Engineer, Metropolitan Traffic Area
Traders' Co-ordinating Committee on Transport
*Traders Road Transport Association
Traders' Traffic Conference Association
*Trades Union Congress
Transport Association
*Transport Development Group Ltd.
*Transport Holding Company
United Commercial Travellers' Association
United Kingdom Atomic Energy Authority
United Kingdom Petroleum Industry Advisory Committee
Urban District Councils Association
Vehicle Builders’ and Repairers’ Association
Professor Gilbert Walker
Professor A. A. Walters
Mr. A. M. Wilson
Mr. R. S. Yorke
Appendix B

STATISTICS


From Table (i), page 2, and Table (vi), page 9:
Ton Mileage by road and rail.

<table>
<thead>
<tr>
<th>Year</th>
<th>Ton mileage performed by road transport (Thousand millions)</th>
<th>Ton mileage performed by rail (Thousand millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>General merchandise (exc. iron and steel)</td>
<td>All goods</td>
</tr>
<tr>
<td>1952</td>
<td>18.8</td>
<td>5.7</td>
</tr>
<tr>
<td>1962</td>
<td>33.6</td>
<td>4.3</td>
</tr>
</tbody>
</table>

From Table (vi), page 10:
Indices of Production for selected industries 1952–1962 (Average 1958=100)

<table>
<thead>
<tr>
<th>Year</th>
<th>Predominantly rail using industries</th>
<th>Predominantly road using industries</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Mining and quarrying</td>
<td>Ferrous metal manufacture</td>
</tr>
<tr>
<td>1952</td>
<td>105</td>
<td>95</td>
</tr>
<tr>
<td>1958</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>1962</td>
<td>95</td>
<td>107</td>
</tr>
<tr>
<td>Percentage change</td>
<td>1952-62</td>
<td></td>
</tr>
<tr>
<td>1952-62</td>
<td>-10</td>
<td>+13</td>
</tr>
</tbody>
</table>
Proportion of empty mileage in total mileage run: analysis by licence class and unladen weight category

**Percentages**

<table>
<thead>
<tr>
<th>Licence category</th>
<th>Unladen weight</th>
<th>Proportion of empty mileage</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over</td>
<td>Not over</td>
</tr>
<tr>
<td></td>
<td>On end-to-end journeys</td>
<td>On intermediate journeys</td>
</tr>
<tr>
<td><strong>A</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>17</td>
</tr>
<tr>
<td>Total A</td>
<td>27</td>
<td>15</td>
</tr>
<tr>
<td><strong>Contract A</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>13</td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>17</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>19</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>28</td>
</tr>
<tr>
<td>Total Contract A</td>
<td>41</td>
<td>21</td>
</tr>
<tr>
<td><strong>B</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>21</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>29</td>
</tr>
<tr>
<td>Total B</td>
<td>45</td>
<td>20</td>
</tr>
<tr>
<td><strong>C</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>12</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>16</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>18</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>29</td>
</tr>
<tr>
<td>Total C</td>
<td>38</td>
<td>17</td>
</tr>
<tr>
<td><strong>All vehicles</strong></td>
<td>36</td>
<td>17</td>
</tr>
</tbody>
</table>

*All journeys by C vehicles not exceeding 1 ton unladen weight were classed as intermediate.*
From Table 21, page 43
Estimated number of loaded end-to-end journeys undertaken during 1962, analysed by length of haul

<table>
<thead>
<tr>
<th>Licence category</th>
<th>Unladen weight</th>
<th>Length of haul</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over</td>
<td>Not over</td>
<td>Under 25 miles</td>
</tr>
<tr>
<td>A</td>
<td>3 tons</td>
<td>5 tons</td>
<td>7,434</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5 tons</td>
<td>1,466</td>
</tr>
<tr>
<td>Contract A</td>
<td>3 tons</td>
<td>5 tons</td>
<td>4,085</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5 tons</td>
<td>1,240</td>
</tr>
<tr>
<td>B</td>
<td>3 tons</td>
<td>5 tons</td>
<td>15,457</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5 tons</td>
<td>1,187</td>
</tr>
<tr>
<td>C</td>
<td>3 tons</td>
<td>5 tons</td>
<td>33,729</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5 tons</td>
<td>8,615</td>
</tr>
</tbody>
</table>

From Table 22, page 44
Estimated number of intermediate journeys undertaken during 1962, analysed by length of journey

<table>
<thead>
<tr>
<th>Licence category</th>
<th>Unladen weight</th>
<th>Length of journey</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over</td>
<td>Not over</td>
<td>Under 25 miles</td>
</tr>
<tr>
<td>A</td>
<td>3 tons</td>
<td>5 tons</td>
<td>1,610</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5 tons</td>
<td>256</td>
</tr>
<tr>
<td>Contract A</td>
<td>3 tons</td>
<td>5 tons</td>
<td>328</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5 tons</td>
<td>59</td>
</tr>
<tr>
<td>B</td>
<td>3 tons</td>
<td>5 tons</td>
<td>1,663</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5 tons</td>
<td>43</td>
</tr>
<tr>
<td>C</td>
<td>3 tons</td>
<td>5 tons</td>
<td>9,626</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5 tons</td>
<td>765</td>
</tr>
</tbody>
</table>

It is important to note that this is not an analysis by length of haul of a consignment. It is not possible from the results of the present survey to analyse intermediate journeys by length of haul because, by definition, this type of journey is one on which the load is continually changing. The present figures therefore relate to journeys analysed by their length; the vehicle may be loaded for the whole journey or for only part of it, and different consignments (or size of consignment) will be carried on different parts of the journey.
From Table 23, page 45
Estimated tons carried on end-to-end journeys during 1962, analysed by length of haul

<table>
<thead>
<tr>
<th>Licence category</th>
<th>Unladen weight</th>
<th>Length of haul</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over</td>
<td>25 miles</td>
<td>25-49 miles</td>
</tr>
<tr>
<td></td>
<td>Not over</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>18.4</td>
<td>1.2</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>14.4</td>
<td>1.3</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>35.4</td>
<td>4.4</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>191.1</td>
<td>29.1</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>78.1</td>
<td>22.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>337.2</td>
<td>58.0</td>
</tr>
</tbody>
</table>

From Table 24, page 46
Estimated tons carried on intermediate journeys during 1962, analysed by length of journey

<table>
<thead>
<tr>
<th>Licence category</th>
<th>Unladen weight</th>
<th>Length of journey</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over</td>
<td>25 miles</td>
<td>25-49 miles</td>
</tr>
<tr>
<td></td>
<td>Not over</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>41.8</td>
<td>10.9</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>27.7</td>
<td>9.1</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>34.0</td>
<td>15.6</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>38.7</td>
<td>24.7</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>5.6</td>
<td>5.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>169.9</td>
<td>63.7</td>
</tr>
</tbody>
</table>
Estimated ton mileage performed on end-to-end journeys during 1962, analysed by length of haul

<table>
<thead>
<tr>
<th>Licence category</th>
<th>Unladen weight</th>
<th>Over 25 miles</th>
<th>25-49 miles</th>
<th>50-99 miles</th>
<th>100 miles and over</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>A</td>
<td>1 ton</td>
<td>-</td>
<td>-</td>
<td>1</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>12</td>
<td>4</td>
<td>4</td>
<td>4</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>83</td>
<td>65</td>
<td>127</td>
<td>147</td>
<td>422</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>354</td>
<td>411</td>
<td>818</td>
<td>2,390</td>
<td>3,972</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>140</td>
<td>249</td>
<td>743</td>
<td>3,143</td>
<td>4,276</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>594</td>
<td>729</td>
<td>1,693</td>
<td>5,685</td>
<td>8,702</td>
</tr>
<tr>
<td>Contract A</td>
<td>1 ton</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>3</td>
<td>2</td>
<td>-</td>
<td>2</td>
<td>7</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>34</td>
<td>20</td>
<td>21</td>
<td>29</td>
<td>105</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>314</td>
<td>269</td>
<td>320</td>
<td>432</td>
<td>1,334</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>136</td>
<td>190</td>
<td>345</td>
<td>884</td>
<td>1,555</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>487</td>
<td>481</td>
<td>689</td>
<td>1,345</td>
<td>3,002</td>
</tr>
<tr>
<td>B</td>
<td>1 ton</td>
<td>1</td>
<td>1</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>3</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>5</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>24</td>
<td>7</td>
<td>2</td>
<td>1</td>
<td>34</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>149</td>
<td>45</td>
<td>31</td>
<td>20</td>
<td>246</td>
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<tr>
<td></td>
<td>5 tons</td>
<td>121</td>
<td>104</td>
<td>149</td>
<td>220</td>
<td>593</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,152</td>
<td>598</td>
<td>497</td>
<td>505</td>
<td>2,752</td>
</tr>
<tr>
<td>C</td>
<td>1 ton</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>123</td>
<td>39</td>
<td>37</td>
<td>29</td>
<td>228</td>
</tr>
<tr>
<td></td>
<td>2½ tons</td>
<td>92</td>
<td>43</td>
<td>32</td>
<td>22</td>
<td>189</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>263</td>
<td>140</td>
<td>132</td>
<td>118</td>
<td>653</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>1,522</td>
<td>1,038</td>
<td>977</td>
<td>982</td>
<td>4,519</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>2,741</td>
<td>2,119</td>
<td>2,293</td>
<td>2,635</td>
<td>9,789</td>
</tr>
<tr>
<td>Total, all vehicles</td>
<td></td>
<td>4,975</td>
<td>3,928</td>
<td>5,172</td>
<td>10,170</td>
<td>24,244</td>
</tr>
</tbody>
</table>
From Table 26, page 48

Estimated ton mileage performed on intermediate journeys during 1962, analysed by length of journey

<table>
<thead>
<tr>
<th>Licence category</th>
<th>Unladen weight</th>
<th>Length of journey</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Over</td>
<td>Not over</td>
<td>Under 25 miles</td>
</tr>
<tr>
<td>A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A 1 ton</td>
<td></td>
<td></td>
<td>13</td>
</tr>
<tr>
<td>2 tons</td>
<td>33</td>
<td>33</td>
<td>58</td>
</tr>
<tr>
<td>2½ tons</td>
<td>40</td>
<td>19</td>
<td>16</td>
</tr>
<tr>
<td>Total</td>
<td>160</td>
<td>269</td>
<td>422</td>
</tr>
<tr>
<td>Contract A</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 ton</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>2 tons</td>
<td>3</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>2½ tons</td>
<td>9</td>
<td>11</td>
<td>14</td>
</tr>
<tr>
<td>3 tons</td>
<td>4</td>
<td>5</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>31</td>
<td>50</td>
<td>100</td>
</tr>
<tr>
<td>B</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 ton</td>
<td></td>
<td></td>
<td>1</td>
</tr>
<tr>
<td>2 tons</td>
<td>5</td>
<td>6</td>
<td>56</td>
</tr>
<tr>
<td>2½ tons</td>
<td>27</td>
<td>18</td>
<td>53</td>
</tr>
<tr>
<td>3 tons</td>
<td>53</td>
<td>76</td>
<td>53</td>
</tr>
<tr>
<td>5 tons</td>
<td>2</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>Total</td>
<td>143</td>
<td>184</td>
<td>229</td>
</tr>
<tr>
<td>C</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 ton</td>
<td></td>
<td></td>
<td>687</td>
</tr>
<tr>
<td>2 tons</td>
<td>269</td>
<td>331</td>
<td>199</td>
</tr>
<tr>
<td>2½ tons</td>
<td>153</td>
<td>198</td>
<td>155</td>
</tr>
<tr>
<td>3 tons</td>
<td>299</td>
<td>435</td>
<td>387</td>
</tr>
<tr>
<td>5 tons</td>
<td>290</td>
<td>451</td>
<td>596</td>
</tr>
<tr>
<td>Total</td>
<td>1,732</td>
<td>1,514</td>
<td>1,531</td>
</tr>
<tr>
<td>Total, all vehicles</td>
<td>2,066</td>
<td>2,017</td>
<td>2,282</td>
</tr>
</tbody>
</table>
From *Table 6*, page 15
Numbers of agricultural and general goods vehicles with licences current 1958–1963: analysis by unladen weight

<table>
<thead>
<tr>
<th>Type of goods vehicle</th>
<th>Unladen Weight</th>
<th>1963</th>
</tr>
</thead>
<tbody>
<tr>
<td>General</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Over</td>
<td>Not over</td>
</tr>
<tr>
<td></td>
<td>16 cwts</td>
<td>16 cwts</td>
</tr>
<tr>
<td></td>
<td>1 ton</td>
<td>1 ton</td>
</tr>
<tr>
<td></td>
<td>1 ½ tons</td>
<td>1 ½ tons</td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>2 tons</td>
</tr>
<tr>
<td></td>
<td>Total not over 2 tons</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2 tons</td>
<td>3 tons</td>
</tr>
<tr>
<td></td>
<td>3 tons</td>
<td>5 tons</td>
</tr>
<tr>
<td></td>
<td>5 tons</td>
<td>8 tons</td>
</tr>
<tr>
<td></td>
<td>8 tons</td>
<td></td>
</tr>
<tr>
<td></td>
<td>TOTAL</td>
<td></td>
</tr>
</tbody>
</table>

*Note:* This table does not include the 6,000 haulage tractors as defined in paragraph 5 of the Third Schedule of the Vehicles (Excise) Act 1962 (i.e. broadly non-load carrying vehicles towing "draw-bar" trailers). Of these, 4,000 weigh under 2 tons unladen and 2,000 weigh between 2 and 3 tons unladen. There is also a very small number of these vehicles of over 3 tons unladen.
From *Table 9*, page 26

Vehicles with licences current: detailed analysis by type and size of vehicle

<table>
<thead>
<tr>
<th>Type and size of vehicle</th>
<th>1962</th>
<th>1963</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Goods Vehicles (continued)</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b) General</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(i) Analysis by unladen weight:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Over</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12 cwts</td>
<td>22,000</td>
<td>26,800</td>
</tr>
<tr>
<td>16 ,,</td>
<td>294,100</td>
<td>303,800</td>
</tr>
<tr>
<td>1 ton</td>
<td>236,500</td>
<td>236,800</td>
</tr>
<tr>
<td>1 ½ tons</td>
<td>257,400</td>
<td>275,800</td>
</tr>
<tr>
<td>2 ,, 2 ½ tons</td>
<td>80,500</td>
<td>81,400</td>
</tr>
<tr>
<td>2 ü 3 ,,</td>
<td>86,300</td>
<td>85,700</td>
</tr>
<tr>
<td>3 ,, 4 ,,</td>
<td>142,800</td>
<td>137,100</td>
</tr>
<tr>
<td>4 ,, 5 ,,</td>
<td>164,500</td>
<td>174,500</td>
</tr>
<tr>
<td>5 ,, 6 ,,</td>
<td>60,900</td>
<td>69,100</td>
</tr>
<tr>
<td>6 ,, 7 ,,</td>
<td>27,400</td>
<td>31,200</td>
</tr>
<tr>
<td>7 ,, 8 ,,</td>
<td>12,600</td>
<td>15,500</td>
</tr>
<tr>
<td>8 ,,</td>
<td>12,500</td>
<td>14,700</td>
</tr>
<tr>
<td>TOTAL</td>
<td>1,412,500</td>
<td>1,469,800</td>
</tr>
</tbody>
</table>

*Note:* This table does not include the 6,000 haulage tractors with licences current. (See footnote to previous table).
(iii) Extract from "Public Haulage Operators. Analysis by Size of Fleet 1963". Ministry of Transport

From Table 2, page 2
Estimated distribution of public haulage vehicles by size of fleet as at 31st December, 1963

<table>
<thead>
<tr>
<th>Size of fleet</th>
<th>Number of vehicles</th>
<th>Percentage of all vehicles</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 vehicle</td>
<td>23,100</td>
<td>11</td>
</tr>
<tr>
<td>2 vehicles</td>
<td>15,700</td>
<td>8</td>
</tr>
<tr>
<td>3 &quot;</td>
<td>11,900</td>
<td>6</td>
</tr>
<tr>
<td>4 &quot;</td>
<td>10,100</td>
<td>5</td>
</tr>
<tr>
<td>5 &quot;</td>
<td>8,300</td>
<td>4</td>
</tr>
<tr>
<td>Total 1 to 5 vehicles</td>
<td>69,100</td>
<td>34</td>
</tr>
<tr>
<td>6 to 10 vehicles</td>
<td>28,900</td>
<td>14</td>
</tr>
<tr>
<td>11 to 15 &quot;</td>
<td>18,300</td>
<td>9</td>
</tr>
<tr>
<td>16 to 20 &quot;</td>
<td>12,500</td>
<td>6</td>
</tr>
<tr>
<td>21 to 30 &quot;</td>
<td>15,700</td>
<td>7</td>
</tr>
<tr>
<td>31 to 40 &quot;</td>
<td>9,700</td>
<td>5</td>
</tr>
<tr>
<td>41 to 50 &quot;</td>
<td>5,800</td>
<td>3</td>
</tr>
<tr>
<td>51 to 100 &quot;</td>
<td>10,100</td>
<td>5</td>
</tr>
<tr>
<td>101 to 200 &quot;</td>
<td>6,600</td>
<td>3</td>
</tr>
<tr>
<td>More than 200 vehicles</td>
<td>28,900*</td>
<td>14</td>
</tr>
<tr>
<td>Total Vehicles</td>
<td>205,600</td>
<td>100</td>
</tr>
</tbody>
</table>

*Including the Transport Holding Company fleets.
SUNDAY OBSERVANCE

MEMORANDUM BY THE SECRETARY OF STATE FOR THE HOME DEPARTMENT

The Report of the Departmental Committee on the Law on Sunday Observance was published in December. It was debated in the House of Commons on 15th February, and in the House of Lords on 17th March. In both Houses speedy action on the Report was urged, and assurances were given that it would not be pigeon-holed.

2. The recommendations made by the Committee fall under three general headings, relating respectively to entertainment and sport, trading and conditions of employment. The recommendations on Sunday trading, which are less radical than those relating to entertainment and sport, are being considered in conjunction with proposals to amend the law relating to week-day shop closing hours; and it will be appropriate to have a single Bill dealing with both week-day and Sunday trading and a separate Bill on Sunday entertainment and sport.

3. This memorandum is concerned with entertainment and sport only. The recommendations of the Committee on this subject are set out in the Appendix.

4. The debate in the House of Commons was poorly attended, which may indicate, though this cannot be said with certainty, that any proposals to relax the law in this field would now meet with less hostility than would have been the case only a few years ago. Most speakers said that they would welcome a moderate relaxation, provided that Sunday retained a special character as a day primarily devoted to recreation and family pursuits. In the House of Lords the Report was welcomed by all speakers, including the representatives of the Church.

5. In the debates, criticisms were directed mainly to recommendations 4, 6 and 7. In recommendations 4 and 7 the Committee proposed that no theatres, cinemas, circuses or public dance halls should be free to open, and no sports for people to watch should begin, before 12.30 p.m. on Sunday. The debates in both Houses showed that 12.30 p.m. is regarded as unduly early and that 2 p.m. would be more generally acceptable.
SUMMARY OF RECOMMENDATIONS

Entertainments and sports

1. Cinemas should be allowed to open anywhere on Sunday and the "charity tax" should be abolished.

2. Sunday performances of music should be allowed anywhere and no longer restricted to areas where there is a licensing system for public music.

3. We recommend, with limited dissent from one member, that theatres, variety entertainment, ballet, public dancing, circuses, fun-fairs and similar entertainments which make a charge for admission should no longer be forbidden on Sunday.

4. A public performance of a stage play, a cinematograph exhibition, a variety entertainment or a circus should not be allowed, and public dancing should not be permitted, between the hours of 2 a.m. (3 a.m. in the West End of London) and 12.30 p.m. on Sunday.

5. No additional restriction should be imposed on gaming in clubs on Sunday.

6. The existing prohibition on sports matches and meetings to which the public are admitted on payment should be abolished, but the promotion of a sports match or meeting for people to watch should be prohibited if the players or participants are remunerated for taking part.

7. The promotion of a sports match or meeting for people to watch should not be allowed before 12.30 p.m. on Sunday.

8. The existing prohibition on betting with bookmakers or the totalisator at racecourses on Sunday should be retained.

9. These recommendations would involve the repeal of the following statutory provisions:

   - Sunday Observance Act, 1625 - the whole Act;
   - Sunday Observance Act, 1780 - the whole Act;
   - Gaming Act, 1845 - section 13;
   - Sunday Entertainments Act, 1932 - the whole Act;
   - Licensing Act, 1961 - section 23(3).
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- Gaming Act, 1845 - section 13;
- Sunday Entertainments Act, 1932 - the whole Act;
- Licensing Act, 1961 - section 23(3).
CABINET

LEGISLATIVE PROGRAMME 1965–66

MEMORANDUM BY THE LORD PRESIDENT OF THE COUNCIL

The Future Legislation Committee have considered the Bills suggested by Ministers for inclusion in the Legislative Programme for 1965–66 and have heard the views of the Ministers concerned. In the list annexed the Bills have been provisionally classified under the following heads:

A.1. Essential Bills—that is, Bills which must be obtained by a particular date.
A.2. Contingent Bills—that is, Bills which may become essential.
B. Main Programme Bills.
C. Bills in Reserve—that is, Bills which might be brought forward if time permits, but which cannot have any priority in drafting.
S. Bills suitable for the proposed Second Reading Committee.
P. Bills suitable for Private Members.
D. Other Bills.

2. We suggest that the core of the main programme should be the Bills, foreshadowed in the Manifesto, to implement the Government's social policies. Room must also be found for the overflow from the present Session, for Bills which may be needed for economic reasons, and for other Bills which may become necessary in the course of the Session, but cannot now be foreseen. The list of Bills, though long, is not in my opinion too long, bearing in mind that there may be some casualties.

3. List S is new. We have tried to identify Bills which can be introduced with the intention of referring them to the Second Reading Committee but not necessarily of finding time for them if objection is taken successfully to their being given a Second Reading by this procedure.
4. In the normal course the major Bills in the programme should be introduced by the end of January, and a good supply of Bills for both the House of Commons and the House of Lords early in the Session is essential. The programme will be further considered when the terms of The Queen’s Speech on the Opening of Parliament are being settled in the Autumn. Subject to that, we ought to take decisions now on what we want to see in the programme so that the Ministers concerned can go ahead urgently with the preparation of their Bills. I accordingly seek the approval of the Cabinet for the provisional programme set out in the Annex.

H. B.

Privy Council Office, S.W.1,
28th June, 1965.
Note: Right-hand column shows estimated size in number of clauses of the Bill.

A.I. Essential Bills

<table>
<thead>
<tr>
<th>Bill</th>
<th>Size (Number)</th>
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<td>Finance</td>
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<tr>
<td>Expiring Laws Continuance</td>
<td>(Short)</td>
</tr>
<tr>
<td>? including elements of Ministry of</td>
<td></td>
</tr>
<tr>
<td>Aviation (Supply Powers), and</td>
<td></td>
</tr>
<tr>
<td>Licensing Planning</td>
<td></td>
</tr>
<tr>
<td>Commonwealth Secretariat</td>
<td>(Short)</td>
</tr>
<tr>
<td>Indus Basin Development</td>
<td>(3)</td>
</tr>
<tr>
<td>Army and Air Force</td>
<td>(30)</td>
</tr>
<tr>
<td>including Naval Enlistment</td>
<td>(?)</td>
</tr>
<tr>
<td>General Practitioner Services</td>
<td>(Short)</td>
</tr>
<tr>
<td>Rural Water and Sewerage</td>
<td>(2)</td>
</tr>
<tr>
<td>Overseas Aid</td>
<td>(Medium)</td>
</tr>
<tr>
<td>? including Commonwealth Teachers</td>
<td></td>
</tr>
<tr>
<td>Act (Amendment) and also</td>
<td></td>
</tr>
<tr>
<td>Overseas Superannuation Fund</td>
<td></td>
</tr>
<tr>
<td>if not included in Superannuation</td>
<td></td>
</tr>
<tr>
<td>(Miscellaneous Provisions)</td>
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</tr>
<tr>
<td>Birmingham Tunnel</td>
<td>(12)</td>
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<tr>
<td>Coal Industry</td>
<td>(15)</td>
</tr>
<tr>
<td>Air Corporations</td>
<td>(Short)</td>
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<td>Slum Clearance (Compensation)</td>
<td>(Short)</td>
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<tr>
<td>Post Office Savings</td>
<td>(?)</td>
</tr>
</tbody>
</table>
### A.2. Contingent Bills

<table>
<thead>
<tr>
<th>Contingent Bills</th>
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</thead>
<tbody>
<tr>
<td>East Caribbean Federation, or Barbados Independence</td>
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</tr>
<tr>
<td>Basutoland Independence</td>
<td></td>
</tr>
<tr>
<td>Mauritius Independence</td>
<td></td>
</tr>
<tr>
<td>Aden Colony</td>
<td></td>
</tr>
<tr>
<td>Constitution of Canada</td>
<td></td>
</tr>
<tr>
<td>Malawi Republic</td>
<td></td>
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<tr>
<td>Atlantic Nuclear Force</td>
<td></td>
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<tr>
<td>Compensation for Nazi Victims</td>
<td></td>
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<td>Erskine Bridge</td>
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<td>Railway Finances</td>
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<tr>
<td>British Guiana Independence</td>
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<tr>
<td>Bechuanaland Independence</td>
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</tbody>
</table>

(Short) (Short) (Short) (Short) (15) (4) (?) (?) (20) (2) (Short) (Short)
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<thead>
<tr>
<th>Topic</th>
<th>Category</th>
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</thead>
<tbody>
<tr>
<td>Iron and Steel</td>
<td>Long</td>
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<td>if not included in Superannuation</td>
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<td>Housing (Financial Provisions)</td>
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<td>Preservation of Pension Rights (if required)</td>
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<td>Port Labour</td>
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<td>Pensions Increase</td>
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<td>Expedited Completion Procedure</td>
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<td>Small Fines</td>
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<td>Administration of Justice</td>
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<td>Industrial Designs</td>
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<td>Land Drainage</td>
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<td>Air Corporations</td>
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<td>Civil Aviation (Miscellaneous Provisions)</td>
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<td>Governors' Pensions (unless included in Superannuation ...</td>
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<td>Experiments on Animals</td>
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<td>Betting, Gaming and Lotteries</td>
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<td>Licensing Planning</td>
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<td>Cinematograph Film Production</td>
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<td>Transport</td>
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<td>Bills suitable for Private Members</td>
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<td>Veterinary Surgeons                           ... ... ... (Medium)</td>
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<td>Adoption                                         ... ... ... (10)</td>
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<td>Burial and Cremation                           ... ... ... (35)</td>
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<td>Local Government                               ... ... ... (2)</td>
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<tr>
<td>Deserted Wife’s Rights                         ... ... ... (Short)</td>
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29th June, 1965

CABINET

HOME DEFENCE AND THE TERRITORIAL ARMY

Memorandum by the Secretary of State for the Home Department

Introduction

In the course of considering what home defence measures are required in the period up to 1971-72, the Ministerial Committee on Civil Defence have reviewed the usefulness of the reserve Army (Territorial Army and Army Emergency Reserve II) for home defence, in connection with the study which is being made by the Ministry of Defence of the future requirement for reserve forces. The purpose of this memorandum is to report our views, which are not unanimous, on this question.

The Reserve Forces

2. The Reserve Army as at present constituted would provide about 161,000 men for home defence on mobilisation; this number includes about 84,000 reservists, most of whom are ex-national servicemen who, under the Army Reserves Act 1964, will be available only until 1969. About 152,000 are in units of the Territorial Army divisions which under existing arrangements will be at the disposal of the civil authorities. They are not earmarked in advance for any particular tasks, except for 12-13 units (9,000 men) for firefighting and about 1,000 men for signal and administrative tasks at the regional seats of government.

3. The Territorial Army divisions would be prepared to perform a wide variety of tasks in support of the civil authorities; their primary role would be likely to be helping the police to maintain law and order in circumstances which might involve a widespread breakdown of civil authority.

4. The Territorial Army costs about £35 million a year. The Army Emergency Reserve costs a further £3 million, making a total annual cost for the non-regular Army reserves of £38 million. If the Reserve Army were reorganised on the assumption that no units were to be retained for home defence purposes, there would be a saving of about £20 million a year.

5. In addition to the Reserve Army, up to 20,000 Royal Air Force reservists are earmarked for support of the fire service. The need for this commitment to continue is under separate review. These reservists are also ex-national servicemen whose liability under existing legislation will expire in 1969.
Regular Forces

6. Under present plans some personnel from the following regular forces might be available to support the civil authorities after an attack, although home defence would not be their primary role:

(a) Royal Navy. All naval personnel not required for conduct of active operations. The numbers available would be small.

(b) Army.
(i) personnel of regular field Army units remaining in the United Kingdom after overseas reinforcement: these would not at present exceed 15,000;

(ii) any personnel of static base units who could be made available (present strength approximately 40,000).

(c) Royal Air Force. All personnel not required for air operations, or for the transport of forces or for communications. The total strength of the Royal Air Force in the United Kingdom is about 16,000 officers and 78,000 airmen and airwomen.

7. Although the total numbers of all three Services available might be substantial, any estimate must be speculative, and in any event there are large areas of the United Kingdom, particularly the west and north, where no regular Army forces are located. Only a small proportion of the Army personnel would be in field force units and upon these there might be prior calls.

Home Defence Review Committee

8. The general approach of the Committee of officials currently examining home defence requirements has been that the reduced threat of attack provides scope, in the period up to 1970-71, for cutting down the existing programme, with emphasis being given to measures which could be expected to make a really significant contribution to national survival and to those which could be valuable in an emergency, but require little or no expenditure in peace. The Committee recognised that the reserve forces could give much valuable assistance to the civil authorities after an attack, but, on the basis of their general approach, which the Ministerial Committee subsequently endorsed, they did not consider that the expenditure of a large annual sum on an organisation which did not appear to them to be of the first importance for national survival could be supported on home defence grounds.

9. There was considerable support for this view when the first report of the Committee of officials was recently considered by the Ministerial Committee on Civil Defence. The reduced threat of attack, particularly in Europe, and the fact that reliance is placed on the deterrent policy for the defence of the United Kingdom, were thought to be very relevant. If further steps were necessary for the preservation of law and order in an emergency, the best course, it was suggested, might be to put further emphasis on police plans and perhaps to secure the support of other regular peace-time services. It should prove possible for the Post Office to take over the work of the 1,000 Territorials allocated to signal work.
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10. The Ministry of Defence support the conclusion of the Home Defence Review Committee and have proposals under consideration for reorganising the Reserve Army for military duties overseas on the assumption that no units are retained for home defence purposes, with consequent savings of up to £20 million a year. If it were decided that a home defence role for the Reserve Army must be retained, these plans would need to be completely recast, with consequent further delay in settling the future of the Reserve Army and at the cost of forgoing a substantial part of the savings which might otherwise be achieved.

The primary advantages of military forces for home defence purposes, namely discipline and a cohesive organisation, would be difficult to secure if reserve units were raised purely for assistance to the civil defence services. Their main role would still have to be, ostensibly at least, combat duties, although lower standards could be set for recruitment, equipment and training. However, the Ministry of Defence see serious objections to trying to raise a "second class" force of this nature, which might adversely affect volunteering for Reserve Army units required for purely military duties. Furthermore, any savings that might result would be very much less than could be achieved by dropping the home defence role. For example, if, as has been suggested, a home defence force of 40,000 men, with a war establishment of 30,000, were to be raised, the expected annual savings on the Reserve Army of £20 million would reduce to about £8-10 million. The Ministry of Defence would be unwilling to forgo the larger saving, and would wish the cost of maintaining reservists for home defence purposes, if required, to be met outside the defence budget.

11. But some members of the Ministerial Committee urged the retention of the Territorial Army, primarily for home defence purposes, on the ground that the possibility of preserving public order would be seriously imperilled if it were disbanded. Existing plans for police man-power in war provide for 160,000 persons with full police powers (regular police, special constabulary, recalled ex-police officers and cadets). Even with the reinforcement of the 150,000 soldiers in the Territorial Army, and with assistance from the regular forces of all three Armed Services (paragraph 5), the police assess that they would be gravely short of man-power. Without Territorial Army support the difficulties facing the police in an emergency would be extremely grave and the possibility of preserving public order greatly reduced. There appears to be little prospect of providing from other sources comparable reserves of active, trained and disciplined man-power. In all recent assessments of the measures to be taken in the aftermath of a nuclear attack, a high priority has been shown to be necessary for the maintenance of law and order. Failure to check lawlessness and disorder would increase the likelihood of a breakdown in public control and administration, which would prejudice the distribution of food and essential resources to survivors and put in jeopardy the survival of the nation as an organised entity.

Conclusion

12. We were not able to resolve these issues and we accordingly agreed to report the opposing views for a decision, which is urgently required by the Ministry of Defence to enable future requirements for reserve forces to be formulated. The alternative courses which appear to be open are:
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(a) to accept that expenditure on the reserve forces of the Army cannot be justified solely on home defence grounds and to examine the possibility of making other arrangements which would not involve the use of the Reserve Army to assist the police in the event of nuclear attack on the United Kingdom (paragraphs 8 and 9);

(b) to retain the home defence role of the reserve forces of the Army, with the consequent loss of a saving of up to £20 million a year, depending on the scale of forces to be provided (paragraph 10).

F.S.

Home Office, S. W. 1.

28th June, 1965
29th June, 1965

CABINET

FINANCIAL POSITION OF THE COAL INDUSTRY

Memorandum by the First Secretary of State and Secretary of State for Economic Affairs

The Economic Development Committee at its meeting on 28th June, 1965 discussed proposals by the Minister of Power for improving the financial position of the Coal Board; and in particular proposals for a capital reorganisation. It was generally agreed that action was needed; and that in view of the atmosphere in the coal industry it would be desirable for an announcement to be made of Government action before the Conference of the National Union of Mineworkers (N.U.M.) on 6th July. There was however some differences of view about the details of the action to be taken. In view of this and of the importance of the subject I was asked to report on the problem to Cabinet.

The coal industry's difficulties

2. Over the last few years the market for coal has contracted from 220 million to about 190 million tons a year and there is no doubt it is going to fall further. If it goes down to (say) 175 million tons in 1970, about 240 pits will have to be closed. This will involve a run down in the labour force of about 25,000 a year, nearly as fast as in recent years. There has been no general price increase for three years and the National Coal Board are now operating at a loss: their budget for 1965-66 is now showing a probable deficit in the region of £50 million. It is therefore essential to get the coal industry's financial position on a satisfactory long-term basis.

The need for a capital reorganisation

3. The Coal Board have liabilities to the Exchequer of some £900 million on which they are expected to pay interest charges of over £40 million a year.

4. Of this about £90 million represents accumulated losses arising mainly as a result of decisions in past years not to put up prices as much as was necessary to cover costs. Of the remaining £800 million £150 million or so represents colliery and coke oven assets which are today of little or no economic value (i.e. which are actually making cash losses or are expected to do so very soon). A further £150 million represents assets which are of very doubtful value and are expected to become valueless in the next few years.
5. The plain fact is that after the war the Coal Board was encouraged to invest large sums in order to expand output to 220 million tons a year or more. The decline in the market has left them with excess capacity and with many high cost pits which were thought to be needed to get the tonnages required.

Proposals for capital reorganisation

6. Everybody is agreed that the coal industry cannot be expected any longer to meet the capital charges on the present capital structure.

7. The Economic Development Committee agreed unanimously that the £290 odd million of accumulated deficits and the £150 odd million representing assets which are already worthless (say £250 million in total) ought to be written off immediately, at a cost to the Exchequer of about £25 million a year.

8. The general view of the Committee (the Treasury reserving their position) was that a further £150 million, representing assets which everyone recognises will in a few years be of little or no value, should also be written off immediately, at a cost to the Exchequer of about another £15 million a year.

9. The Coal Board would be content to write off the £150 million not immediately but over the next few years provided they were relieved of interest charges on the £150 million at once (at an immediate cost to the Exchequer of £7½ million). The Committee felt that to relieve the Coal Board of interest charges on some of their capital would be an unfortunate precedent. Since it seems inevitable that the further writing off will have to be made over the next few years, there would be a lot to be said for writing the full amount off at once and getting the maximum immediate effect on relations with the N.U.M.

10. The Treasury, on the other hand, are concerned about the additional cost to the Exchequer of writing off the additional £150 million immediately. If, however, it is agreed that something more should be done they prefer writing off to waiving the interest payments.

Effect on prices

11. The Minister of Power told the Economic Development Committee that even if the whole £400 million were written off immediately it would still be necessary for the Coal Board to make some price increases this autumn. But the size of the increases would obviously be less. Thereafter smaller price increases would be needed from time to time.

Subsidies and closures

12. The Economic Development Committee also discussed the possibility of giving some specific subsidy to the Coal Board for a limited period on the condition that the Board and the N.U.M. committed themselves to a definite programme of speeding up the necessary closures. The subsidy might start at £10-15 million and taper off to nothing by 1970. The Committee was divided on the merits of this approach.
13. The arguments in favour are as follows -

(a) It is going to be hard to get the Board and (particularly) the National Union of Mineworkers to press ahead as fast as is necessary with the closure programme. Some additional incentive is needed to get them committed.

(b) The subsidy could be presented as a contribution to the costs of phasing the closure programme on social grounds as against immediate closure, which would be the reaction of privately owned industry to uneconomic pits.

(c) Such a subsidy would still further reduce the need for immediate price increases.

14. The arguments against such a scheme were -

(a) It would be difficult in practice to run down the subsidies and they would indeed tend to encourage the mineworkers to press for keeping uneconomic pits open. If this happened it would increase the Coal Board losses, and intensify pressure on the Government to continue and increase subsidies.

(b) The Coal Board are strongly opposed to subsidies; and would be content with the capital reorganisation scheme.

(c) Losses themselves are a powerful incentive to closures which are delayed not on social grounds but because the Board has to consider the effect on relations with its workers.

15. The majority of the Committee thought nonetheless that it would be worth while exploring with the Coal Board the possibility of a scheme designed to commit the Board and the National Union of Mineworkers to an accelerated closure programme.

Summary

16. I ask my colleagues -

(1) To agree that a capital reorganisation of the Coal Board should be undertaken. (The necessary legislation could be included in a Bill which will in any case be needed in relation to the Board’s borrowing powers.)

(2) To agree that the amount to be written off should be £400 million immediately.

(3) To authorise exploration with the Coal Board and the N. U. M. of a scheme under which tapering subsidies would be given related to the losses of uneconomic pits and tied to a definite scheme for speeding up closures of these pits.

(4) To agree that we should seek to keep to the minimum the increase in coal prices this autumn.

G. B.

Department of Economic Affairs, S. W. 1.

29th June, 1965
CABINET

PUBLIC SCHOOLS

MEMORANDUM BY THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE

On 17th December last my predecessor announced that he proposed "to set up an educational trust with a view to the integration of the public schools within the State system of education". On 19th May I submitted to the Social Services Committee a detailed plan for doing this. I proposed to set up a Public Schools Commission and to give it (in an accompanying White Paper) firm guiding principles on which to work.

2. The Social Services Committee approved my proposals in principal. But they felt (as I do) that the moment was not propitious for stirring up another major row, and that action should wait until the autumn.

3. I therefore do not now seek Cabinet approval for the merits of my plan, which I shall of course put to Cabinet at the appropriate moment. But I seek a decision on whether we should make any interim announcement in the period before we go ahead with the main scheme.

4. I think that we should. To say and do nothing might provoke difficulties (a) in the Parliamentary Party (though I personally doubt this), (b) more seriously, at Annual Conference, where there might be a hostile debate which would force me to say something before Cabinet had taken a decision, and (c) amongst our friends in the educational world. It would also make us look rather foolish at a time when the Public Schools themselves are asking for reform. And it might create an impression of Government indecision or give rise to rumours of a split in the Government.

5. I therefore suggest that in answer to a written P.Q. I should make some such statement as this.

"My preparations for setting up a Public Schools Commission to advise on the best way of integrating the public schools into the State system of education have reached an advanced stage. I now propose to invite the views of interested parties. I shall hope to establish the Commission in the next session of Parliament."

CONFIDENTIAL
6. I could then conduct a leisurely series of meetings, at which I would listen rather than talk (as several Shadow Ministers did with representative Headmasters before the General Election).

7. I therefore seek approval for a statement on these lines.

C.A.R.C.

Department of Education and Science, W.I.,
29th June, 1965.
2. There is no difference between us over objectives, which are to relieve the Coal Board of interest charges on its capital which it cannot reasonably be expected to meet and to facilitate the early closure of uneconomic pits.

3. A write-off of £400 million means in present circumstances that the Chancellor has to find £40 million more in taxes in the first year. Furthermore, it would be difficult to defend to Parliament the writing-off now of £150 million in respect of assets which will only become of little or no value in the years to come. Nevertheless, the Chancellor prefers this to a waiver of interest and would agree if the Cabinet feel further relief to the Coal Board is essential.

4. The question of a subsidy linked to closures is quite different. In all the talks which officials have had with the Coal Board the latter have been emphatic that, while capital reconstruction is necessary, the payment of further money cannot affect the closure programme. The problems are managerial and social.

5. As the First Secretary of State states in paragraph 13(a) of his paper, the hope is that the addition would provide an incentive to the National Union of Mineworkers. But it is hard to see how it would be possible to get a sufficiently tight agreement to be effective. Moreover, the cost of this rather speculative possibility (a figure of £10-£15 million next year has been suggested, falling to nil after four years) would fall on Votes and would make more difficult the decisions shortly to be reached on public expenditure.

6. Moreover, subsidies might prove in practice to be an actual disincentive to closures. They would be a very dangerous road to start on. No-one can foresee the future demand for coal for sure and we would find it difficult to stop the subsidies while there were still uneconomic pits left once the subsidies had been started. There is also every possibility that we should be setting a precedent which could well be prayed in aid by other industries. This is too open-ended a commitment to shoulder in present circumstances.

N. MacD.

Treasury Chambers, S. W. 1.
29th June, 1965
6th July, 1965

CABINET

COMMONWEALTH IMMIGRATION

Memorandum by the Lord President of the Council

It is necessary to reach early decisions on recommendations arising from Lord Mountbatten's recent Mission to certain Commonwealth countries, if a full and detailed statement of Government policy is to be made as promised by the Prime Minister in the House of Commons on 15th June, and a White Paper issued before the Summer Recess.

Lord Mountbatten's Report

2. Lord Mountbatten was commissioned to explain to the other Commonwealth Governments whom he visited the problems caused us by the present scale of immigration into this country, and to consider what new measures might be adopted, particularly in the countries of origin, to regulate the flow. He was also invited to make any recommendations as to policy or procedures in the whole field of immigration. His recommendations were summarised in paragraph 76 of his Report (C. I. (65) 19), of which an extract is attached at Annex A.

Commonwealth Immigration Committee's Views

3. These recommendations have been considered by the Commonwealth Immigration Committee, who are prepared to accept them except as explained below.

Workers (recommendations (i) to (viii))

4. The Committee considered that the overall figure of 10,000 vouchers a year in future recommended by Lord Mountbatten was too high, and that a more realistic figure would be 7,500. This figure, however, needed to be considered against the figures of aliens admitted for employment here, of whom 9,000 were allowed to take up permanent residence here in 1964 (an exceptionally high year).

5. While generally in favour of the abolition of Category C (mainly unskilled) vouchers, the Committee felt that, while perhaps maintaining the distinction between Category A vouchers (those with jobs to go to) and Category B vouchers (those with special qualifications or skills needed here), vouchers might be issued within these broad categories according to a restricted list of eligible occupations agreed interdepartmentally and arranged in order of priority. On the basis of a limit of 7,500 vouchers the Minister of Labour has suggested the following list:-
(1) doctors, dentists and nurses;
(2) qualified teachers;
(3) graduates in science or technology with two years post-graduate experience;
(4) non-graduates with certain professional qualifications and two years experience after qualifying;
(5) persons with offer of employment in hospitals;
(6) persons with offers of employment in public transport.

He considers that it would be impracticable not to reveal publicly these classifications and the criteria required.

6. As regards Malta (recommendation (vii)), some members of the Committee were doubtful about the proposal for special arrangements to ensure that Malta receives until 1967 not less than her present level of 1,500 vouchers. This matter must clearly be considered in relation to Her Majesty's Government's relevant commitments to Malta, which are set out in the note at Annex B.

7. Some members of the Committee think that attention should be drawn to two further implications of these proposals:-

(i) By restricting categories of Commonwealth employment-voucher holders to those with special qualifications of value to this country, would we not, in our own interests, be discriminating against Commonwealth countries, both in "creaming off" the skilled professional workers whose services they need themselves, and at the same time in treating them less favourably than foreign countries on whose nationals no such limitations are imposed?

(ii) By imposing such rigid and limited categories of employment for immigrants from Commonwealth countries, should we not be inflicting undue hardship on small dependent territories (for whom Her Majesty's Government have a special responsibility) whose economies are to a greater or lesser extent dependent on being allowed to send workers here in other categories than those listed?

8. Figures are attached at Annex C of statistics regarding the immigration and employment of Commonwealth citizens and aliens, and statistics of vouchers hitherto issued to Commonwealth citizens for different categories of employment.

Dependants

9. The Committee felt that some further limitation on the entry of dependants was desirable, having regard particularly to a possible half million dependants now entitled to admission if they care to exercise the right. They considered - but rejected - various possibilities of imposing a limitation, including that of a moratorium on the entry of all dependants and a scheme for requiring proof of
satisfactory housing arrangements being available for all newly arriving dependants of established immigrants. They consider, however, that, while preserving their legal right of entry, there must be stricter control of dependants. The Committee agree with the Mission's recommendation (x) that the concessionary extensions set out in Cmd. 1716 (to allow children from the ages of 16 to 18 to join parents and to allow children under 16 to rejoin relatives other than parents) should be withdrawn. As regards the need to verify claims for the admittance of dependants (recommendation xi), after considering various alternatives, the Committee think that the best arrangement would be to make it a requirement for immigrant workers to register, before some specified date, the names and particulars of all their direct dependants. These should be checked in the country of origin, and certificates issued which would need to be produced to immigration officers on arrival to secure admittance. Legislation would be needed to enable immigration officers to refuse admittance to dependants arriving without certificates of registration. The Home Secretary should have discretionary powers to waive the strict application of these requirements in compassionate cases.

Students

10. In order to check the bona fides of a student the Mission recommended (xii) that encouragement should be given to arrangements whereby Commonwealth Governments and High Commissions in London vouch for the bona fides of students. When they completed or gave up their studies they should be allowed to take up work only if they would have qualified for a voucher. To ensure that they left after completing their studies a new general power to repatriate Commonwealth citizens without a criminal conviction or a court recommendation should be used.

11. This would not, however, solve the problem of finding students who left their studies for general employment. The most practical solution would be to compel the registration with the police of those students whose bona fides was in doubt. Registration with the police would, however, be inappropriate for Commonwealth citizens and would be sharply criticised by the Commonwealth. Other methods of keeping in touch with them, e.g. through Colleges would be much preferable.

12. The Committee think that there should also be some tightening up of the present criteria for admission as a 'student' and of the definition of 'educational establishment'.

Visitors

13. The Committee agree with the Mission's recommendation (xiii) to limit stays of visitors to six months (extensions being freely granted if good cause is shown)

Conditions of Entry

14. The Mission recommended (xiv) that there should be a general power to impose conditions of entry. The liability would be extended by statute to all Commonwealth citizens subject to control, including voucher-holders and entitled dependants, and the power would be a
general power to impose any condition. The Committee agree but feel that the power to require registration with the police as a condition of entry in any class of case should not be exercisable unless it is expressly conferred by a statutory instrument subject to the affirmative resolution procedure. The general power might, it was suggested by the Home Secretary, also be used to obtain photographs.

Repatriation

15. The Committee agree with the Mission's recommendation (xv) that there should be power to repatriate Commonwealth citizens without the necessity of a criminal conviction or a court recommendation. They think, however, that a right to make representations to an independent authority would be essential. Whether there should be a qualifying period of residence here for the exercise of this right, and if so how long, will require decision by the Cabinet. Aliens acquire a right to make representations against deportation after two years of residence: it is urged that, in principle, Commonwealth immigrants' rights in this respect should be greater than those of aliens.

Health Checks

16. While agreeing wholeheartedly that it is desirable to establish effective health checks for immigrants entering the United Kingdom, the Minister of Health does not agree that it is practical to ensure that these are effectively carried out in all the countries of origin. The national health authorities, he thinks, cannot be relied upon to produce reliable certificates, and it would be too difficult and expensive to install United Kingdom teams of doctors, etc., with the necessary diagnostic equipment in all the countries from which we receive immigrants. He considers therefore that health checks must continue to be carried out in the United Kingdom and extended and improved where possible. Some of the Committee, however, lay greater stress on the arguments in favour of checks in the country of origin, even if not 100 per cent reliable, on the grounds that there is a strong feeling, however unjustified, in this country against potential carriers of diseases being allowed to reach these shores. They emphasise also the hardships involved in returning sick persons once they have arrived here. This has however been the practice over many years with aliens.

Decisions required

17. Decisions by the Cabinet are now sought on the following points:

(1) Should the overall limit of vouchers be 7,500 annually (subject to a possible special additional allotment to Malta)?

(2) On this basis should the distinction between Category A and Category B vouchers be maintained and is the limitation of employment-vouchers to the categories proposed by the Minister of Labour (see paragraph 4 above) acceptable?

(3) If agreed, must the proposed categories be made public, as in the past?
The Commission, in its consideration of the recommendations of the Minister of Defence, is advised to proceed with caution in its implementation of the recommendations of the Committee. The recommendations of the Committee, which are based on a thorough examination of the issues involved, are intended to ensure that the principles of the Constitution are upheld and that the rights of all citizens are protected. The Commission is advised to carefully consider the implications of its decisions and to ensure that they are consistent with the principles of the Constitution.
(4) Should similar restrictions be placed on foreign workers?

(5) Should a special allotment of vouchers be given to Malta so that she may receive up to 1,500 vouchers at least until 1967?

(6) Should legislation be enacted to enable immigration officers to refuse admittance to dependents of immigrants not in possession of a certificate of registration as a dependant of an immigrant (i.e. as a wife or child under 16 of a voucher-holder)?

(7) Should a general power be taken for immigration officers to impose conditions of entry on any immigrant whose bona fides is in doubt, including dependants and visitors? Should this power include the right to require photographs of immigrants?

(8) Should this power ever be used to require Commonwealth students, whose bona fides is in doubt, to register with the police? If so, should the power to require registration be held in reserve until expressly approved by Parliament under the affirmative resolution procedure?

(9) If, as proposed, there should be power to repatriate Commonwealth citizens without the necessity of a criminal conviction or a court recommendation, subject to the right of representation, should there be a qualifying period of residence for the exercise of this right, and, if so, how long should it be?

(10) Should immigrants be required to pass a medical test in the country of origin? If not, should measures be limited to what can be done to improve existing arrangements in this country?

(11) Should powers be taken for the medical examination of dependants, and also to make it a condition of entry for all immigrants found to require medical treatment that they should take steps to obtain it?

**Timing**

18. Decisions are also needed on the timing of:

(i) The statement in Parliament on Government policy.

(ii) The issue of the proposed White Paper.

(iii) The proposed changes in the voucher scheme, and other changes which need not await legislation.

(iv) The timing and date of operation of the legislation required.

N.B.

Privy Council Office, S. W.

5th July, 1965
SUMMARY OF RECOMMENDATIONS OF LORD MOUNTBATTEN'S MISSION

Workers

(i) Vouchers issued to new immigrants admitted to work should be restricted at present to 10,000 a year, with transitional arrangements to avoid hardship (paragraphs 73 and 37) and special provision for Malta (paragraphs 39-41).

(ii) Category B vouchers should be restricted to doctors, nurses, qualified teachers, graduates in science and technology with prescribed qualifications and certain non-graduates with professional qualifications. This is likely to amount to about 4,000 vouchers a year (paragraphs 17-24).

(iii) Within the total of 6,000 Category A vouchers priority should be given to employment in hospitals and public transport, and employment in jobs which in the opinion of the Minister of Labour is important to the national economy should be filled as quickly as possible and where the employer satisfies the Minister that there will be suitable arrangements for the housing and welfare of the immigrants (paragraph 30).

(iv) Category C vouchers should be discontinued (paragraph 33).

(v) Seasonal workers under approved schemes should be excluded from the limitation on the number of immigrants coming to work (paragraph 31).

(vi) Schemes for bringing Commonwealth citizens to Britain for training with firms for a limited period should be continued and expanded wherever possible (paragraph 32).

(vii) Special arrangements should be made to issue up to 1,500 vouchers a year to Maltese (paragraphs 39-41).

(viii) Control of employment of Commonwealth immigrant workers should not be undertaken at present, except for seasonal workers and those coming for training with firms (paragraph 36).

Dependants

(ix) A new immigrant worker should be required to state particulars of his dependants, and these should be checked so far as is practicable by the British High Commission in the country of origin (paragraph 43).

(x) The concessional extensions, announced in Command 1716, to the statutory right of dependants to join an immigrant worker should be withdrawn save in exceptional cases (paragraph 44).

Entry certificates

(xi) There should be continued encouragement of the use of entry certificates where appropriate, but they should not be made compulsory (paragraph 46).
Students

(xii) Encouragement should be given to arrangements whereby Commonwealth Governments and High Commissions in London vouch for the bona fides of students (paragraph 52).

Visitors

(xiii) Visitors should normally be admitted for six months and extensions should be granted freely if good cause is shown (paragraph 55).

Conditions

(xiv) There should be a general power to impose appropriate conditions of entry in any case in which the Immigration Officer has any doubt about the admissibility of the immigrant (paragraph 56).

Repatriation

(xv) There are strong grounds for giving the Secretary of State power to repatriate Commonwealth citizens without the necessity of a criminal conviction or a court recommendation (paragraphs 59-62).

Health checks

(xvi) All immigrant workers, dependants and students should have a health check in their country of origin. Dependants should not be excluded on the grounds of ill health, nor should students unless they are unfit to follow their chosen course of study (paragraphs 63-68).

Knowledge of English

(xvii) Immigrants who come to work should have to satisfy the British High Commission in the country of origin that they have sufficient English to become assimilated to the British community (paragraph 69).
The fact that Malta has special problems is recognised in the Preamble to the Agreement on Financial Assistance to Malta which states:

"......... The Government of the United Kingdom of Great Britain and Northern Ireland, having regard to the special problems of the economy of Malta, desire to assist the Government of Malta in the diversification and development of the economy of Malta".

2. Among other forms of assistance the Agreement specifies that the United Kingdom Government will provide financial assistance during the five years ending on 31 March, 1969, towards "the costs of emigration at levels to be agreed from time to time between the two Governments". The British Government have accepted the need for a high rate of Maltese emigration and have also encouraged the Malta Government to set up a special unit in Britain to recruit Maltese emigrants and settle them in jobs here. In 1964/65 British capital assistance to Malta under the Agreement included a grant of £679,500 towards their emigration expenses.

3. Malta's position is in fact unique. For over a century the entire economy of the colony was based on the service establishments and the Naval Dockyard. The decision to run down these establishments was dictated solely by our own interests. With substantial capital assistance from us, the Malta Government are now attempting to rebuild their whole economy on a new basis, but the next two years, till 1967, by which time their development programme will, it is hoped, be making some impact on the economy, are crucial.

/4. In ...

4. In response to approaches from the British Government, the 'old' Commonwealth, particularly Australia, have accepted more Maltese immigrants. These Governments may, however, be less forthcoming in future if Britain drastically reduces Maltese migration to this country.
Annex C

Statistics of Immigration

Immigration from the Commonwealth

1. A substantial increase in the number of coloured Commonwealth citizens settling in this country first came to notice in 1953. From 1955 onwards a rough check was kept at the ports of the number of Commonwealth citizens from the Caribbean, Asia, East and West Africa and the Mediterranean who were arriving and leaving. Estimates of the net intake of coloured immigrants based on this count are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Number</th>
<th>Year</th>
<th>Total Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>1955</td>
<td>42,700</td>
<td>1959</td>
<td>21,600</td>
</tr>
<tr>
<td>1956</td>
<td>46,850</td>
<td>1960</td>
<td>57,700</td>
</tr>
<tr>
<td>1957</td>
<td>42,400</td>
<td>1961</td>
<td>136,400</td>
</tr>
<tr>
<td>1958</td>
<td>29,850</td>
<td>1962 (first 6 months)</td>
<td>94,900</td>
</tr>
</tbody>
</table>

2. The entry of Commonwealth immigrants has been subject to control since 1st July, 1962 and statistics have been published (Cmds. 2379 and 2658). The main figures for 1963 and 1964 are summarised below. As there are seasonal variations in the inflow and outflow, the figures for the second half of 1962 and for the first few months of 1965, which are available, have not been included in this table.

<table>
<thead>
<tr>
<th>From Canada, Australia and New Zealand Territories</th>
<th>From other Commonwealth Territories</th>
</tr>
</thead>
<tbody>
<tr>
<td>Numbers admitted, by categories -</td>
<td></td>
</tr>
<tr>
<td>a. visitors</td>
<td>130,625</td>
</tr>
<tr>
<td>b. students</td>
<td>2,114</td>
</tr>
<tr>
<td>c. voucher-holders</td>
<td>1,447</td>
</tr>
<tr>
<td>d. others admitted for settlement (mainly dependants)</td>
<td>2,288</td>
</tr>
<tr>
<td>e. remainder (mainly &quot;returning residents&quot;)</td>
<td>51,093</td>
</tr>
<tr>
<td>1. Total no. admitted</td>
<td>187,567</td>
</tr>
<tr>
<td>2. Total no. embarked</td>
<td>178,616</td>
</tr>
<tr>
<td>3. Net balance</td>
<td>6,951</td>
</tr>
<tr>
<td>4. Difference between net balance (3) and number deliberately admitted for settlement (e + d)</td>
<td>5,216</td>
</tr>
</tbody>
</table>
### Voucher Scheme

**APPLICATIONS RECEIVED AND VOUCHERS ISSUED 1963 AND 1964**

#### CATEGORY A

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>Australia, Canada, New Zealand</td>
<td>508</td>
<td>460</td>
<td>514</td>
<td>383</td>
<td>1,389</td>
<td>1,369</td>
<td>898</td>
<td>814</td>
</tr>
<tr>
<td>Rest of Commonwealth</td>
<td>12,325</td>
<td>7,002</td>
<td>18,653</td>
<td>10,219</td>
<td>10,367</td>
<td>9,618</td>
<td>8,071</td>
<td>7,187</td>
</tr>
</tbody>
</table>

#### CATEGORY B

<table>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Teachers</td>
<td>270</td>
<td>168</td>
<td>218</td>
<td>144</td>
<td>56</td>
<td>72</td>
<td>385</td>
<td>169</td>
</tr>
<tr>
<td>Nurses</td>
<td>159</td>
<td>275</td>
<td>520</td>
<td>1,723</td>
<td>5,020</td>
<td>2,101</td>
<td>3,042</td>
<td>612</td>
</tr>
<tr>
<td>Engineers*</td>
<td>50</td>
<td>2</td>
<td>23</td>
<td>6</td>
<td>245</td>
<td>229</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Craftsmen</td>
<td>654</td>
<td>22</td>
<td>655</td>
<td>568</td>
<td>610</td>
<td>614</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

#### CATEGORY C

**ALL CATEGORIES**

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia, Canada, New Zealand</td>
<td>869</td>
<td>470</td>
<td>847</td>
<td>72</td>
<td>2,766</td>
<td>2,259</td>
<td>2,259</td>
<td>1,269</td>
</tr>
<tr>
<td>Rest of Commonwealth</td>
<td>271,269</td>
<td>22,182</td>
<td>68,432</td>
<td>2,149</td>
<td>233,961</td>
<td>38,802</td>
<td>95,156</td>
<td>19,555</td>
</tr>
</tbody>
</table>

**NOTES ON CATEGORY A:** Category A caters for persons who have the offer of a job in this country. The category is not limited to skilled workers and the majority of vouchers issued in this category have been to semi-skilled and unskilled workers.

### CATEGORY B

#### OCCUPATIONS FOR WHICH VOUCHERS ISSUED IN 1963 AND 1964

<table>
<thead>
<tr>
<th>Teachers</th>
<th>Nurses</th>
<th>Doctors</th>
<th>Other Graduates and Professionals</th>
<th>Draughtsmen and Higher Technicians</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964</td>
<td>1965</td>
<td>1964</td>
<td>1964</td>
<td>1964</td>
</tr>
</tbody>
</table>

#### Notes:
- *Rules changed December, 1963 to require 2 years appropriate postgraduate experience*
- *Excluded (apart from carry-over cases) by change of rules in December, 1963*
- + Limited to females by change of rules in December, 1963
4. Immigration from Foreign Countries

It is not possible to give exactly comparable figures for aliens because most categories of aliens are allowed to enter the United Kingdom only temporarily in the first instance: a foreign worker and his wife and children, for example, are not accepted for permanent residence until he has completed four years in approved employment. The number of foreign workers who do so is only about one-fifth of the number entering on labour permits. The table below gives figures for the years 1963 and 1964; because the entry into employment and continued residence of aliens admitted for temporary purposes is strictly controlled, the net balance of inward movement through the ports and its excess over the number originally admitted for settlement does not have to be relied on as a measure of the actual extent of immigration and these figures have therefore been omitted.

<table>
<thead>
<tr>
<th></th>
<th>1963</th>
<th>1964</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Number granted leave to land</td>
<td>2,162,392</td>
<td>2,429,958</td>
</tr>
<tr>
<td>(2) Number embarking</td>
<td>2,151,104</td>
<td>2,411,092</td>
</tr>
<tr>
<td>(3) Number granted leave to land as</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) workers</td>
<td>39,663</td>
<td>42,584</td>
</tr>
<tr>
<td>(b) workers' dependants</td>
<td>3,337</td>
<td>4,098</td>
</tr>
<tr>
<td>(c) others (including students) coming for twelve months or more</td>
<td>46,128</td>
<td>44,149</td>
</tr>
<tr>
<td>(d) visitors</td>
<td>1,664,368</td>
<td>1,891,200</td>
</tr>
<tr>
<td>(4) Number accepted for permanent residence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) workers</td>
<td>5,897</td>
<td>9,195</td>
</tr>
<tr>
<td>(b) others (mainly dependants)</td>
<td>9,452</td>
<td>10,016</td>
</tr>
<tr>
<td>(c) total (a) + (b)</td>
<td>15,349</td>
<td>19,211</td>
</tr>
</tbody>
</table>

Permits issued for foreign workers abroad

| Industry and Commerce | 9,660 |
| Hotels and Restaurants | 11,387 |
| Entertainers          | 5,480 |
| Nurses                | 2,402 |
| Student employees     | 7,225 |
| Resident Domestic Workers (other than in hotel and catering) | 11,484 |

Total 47,638

Direct comparisons between the aliens scheme and the voucher scheme present some difficulties. In particular, most of the permits for aliens are for temporary periods only and would not involve permanent settlement.
In my memorandum C.(65) 90 I have set out proposals by the Commonwealth Immigration Committee for restricting the flow of Commonwealth immigrants and reducing the evasion of controls, which, in the form approved, will need to be incorporated in a White Paper to be issued before the Summer Recess. In addition to this, the White Paper should announce positive measures for further Government action to speed up the integration of Commonwealth immigrants already in this country and remove so far as possible the social tensions to which their concentration in certain areas has given rise.

2. The Commonwealth Immigration Committee are considering proposals in the fields of education, employment, housing and health. Meanwhile we seek approval for general proposals, designed to encourage the development or establishment of voluntary liaison committees in each local authority area where substantial numbers of Commonwealth immigrants have settled, and to strengthen the existing machinery at national level for dealing with the problems arising from Commonwealth immigration.

3. Existing voluntary liaison committees, representing voluntary bodies, the local authority and the immigrant community, provide a focal point for efforts to relieve social problems and tensions. The Committee believe that the Government should give some positive help to these liaison committees quickly, as an uncontroversial and inexpensive way of showing our determination to help those local authorities with problems arising from the presence of large numbers of Commonwealth immigrants in their areas.

4. It is clear that there is need for a closer co-ordination of effort at the national level. We therefore propose that the present National Committee for Commonwealth Immigrants and Commonwealth Immigrants Advisory Council should be replaced by a new National Committee. We are consulting Lady Reading, the Chairman of the Commonwealth Immigrants Advisory Council, to obtain her co-operation and that of the members of her Council, in
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3. Existing voluntary liaison committees, representing voluntary bodies, the local authority and the immigrant community, provide a focal point for efforts to relieve social problems and tensions. The Committee believe that the Government should give some positive help to these liaison committees quickly, as an uncontroversial and inexpensive way of showing our determination to help those local authorities with problems arising from the presence of large numbers of Commonwealth immigrants in their areas.

4. It is clear that there is need for a closer co-ordination of effort at the national level. We therefore propose that the present National Committee for Commonwealth Immigrants and Commonwealth Immigrants Advisory Council should be replaced by a new National Committee. We are consulting Lady Reading, the Chairman of the Commonwealth Immigrants Advisory Council, to obtain her co-operation and that of the members of her Council, in
setting up the new body. With increased financial support, the new National Committee's functions would be to issue advice on particular problems, provide an increased information service, promote research and stimulate and co-ordinate local effort. It should also be able, where necessary, to recruit and train staff who could be made available as full time paid officials for the local voluntary liaison committees, with salaries paid from Government funds. It would be a condition that the liaison committee was fully representative of local voluntary effort, and that the local authority concerned was prepared to provide office accommodation and secretarial support. In areas where existing liaison committees already employed full-time staff arrangements might be made to pay them their salaries on the same conditions. A provisional estimate of the total cost of this scheme is £70,000 per annum.

The Cabinet's approval for these proposals is now sought.

H.B.

Privy Council Office, S.W.1.
6th July, 1965
I summarise in this paper general conclusions on the Mountbatten Report, and what from a departmental point of view I regard as of importance.

2. I take as my starting point that in addition to the near million, or thereabouts, coloured immigrants now in the United Kingdom we are committed to allowing entry to their wives and children under 16, that is, their dependants, who are given a right of entry (if they can satisfy the immigration officer that they are in fact dependants) under section 2 of the Commonwealth Immigration Act 1962 (to which I will refer as "the Act"). As has been said, on a very rough estimate, they may number anything up to half a million. I will refer to them as "the half-million dependants".

3. The Commonwealth Immigration Committee has given consideration to the suggestion that, although we accept and affirm the legal entitlement of these dependants to enter, we should amend the Act so as to provide that dependants of Commonwealth immigrants who are accepted for settlement after a certain date in the future, say 1st October, 1965, should not have a statutory right to enter, but should only be allowed to enter at our discretion as is the case with dependants of aliens admitted here for settlement. Against such a change, it may be argued that though it would impress public opinion as a drastic measure, it would by itself have little immediate effect on the actual figures of intake, if, as we would have to, we allowed, in the exercise of our discretion, Commonwealth dependants to enter in the like circumstances as those in which we allow alien dependants to enter. (The comparison between alien and Commonwealth entrants is not entirely appropriate. This is because a very high percentage of alien immigrants depart again after a shorter or longer period. This is true of some Commonwealth immigrants, such as doctors and nurses; but in general immigrants from the new Commonwealth countries come to settle here for good.) Although, however, such a change would have little short-term impact on the figures of dependants entering from the new Commonwealth countries, it would enable us to say that at any future time, if in the next few years the burden on our social services becomes unbearable...
owing to the number of immigrants arriving, we can in the exercise of our discretion impose terms on the entry of dependants or reduce their number, or, should it be unavoidable, even refuse to admit dependants whether of alien or Commonwealth immigrants. (For the sake of clarity I except from this, of course, the "half-million" dependants of Commonwealth immigrants already settled here or settled by the future date chosen as above suggested, say 1st October, 1965.) It would for example enable us at any future time, should we think it necessary, to say that in the case of dependants of future settlers (whether alien or Commonwealth) they will only be admitted by us in the exercise of our discretion when the settler here can establish that he has proper housing accommodation for his dependants when they arrive. The actual conditions to be imposed could be more or less stringent according as circumstances require. To impose such conditions in the case of the "half-million" entitled dependants (i.e., those of existing settlers) would I think be a breach of faith, and inconsistent with speeches made on behalf of the Government. On the other hand to impose such conditions on the entry of "future" dependants, if I may so describe them, would I think (though the contrary view is plainly arguable) not be a breach of faith, and would not be in any sense inhumane or immoral. On the contrary, to allow dependants to come to overcrowded conditions in an atmosphere of developing ill-will and friction with the indigenous population could I think be described as immoral. If the announcement were made now that this was our intention in the case of settlers, settling in the United Kingdom as from, say, 1st October, 1965, it would not be unfair to them; as they would come with full knowledge that whilst in principle we were certainly in favour of their dependants following them so far as practicable, their dependants might have to wait for example until our housing and social service facilities were adequate to accommodate them. As the conditions would apply equally to coloured, white and alien immigrants we could not be accused of colour discrimination. I think it likely that sooner or later, whether we like it or not, the sheer pressure of numbers arriving may force some change of this sort on us. It would be better to take the present opportunity of doing it, rather than wait until ill-will between the immigrant and indigenous population has become still more exacerbated. It would enable us to make some significant progress in integration. I would accordingly support the making of such a change.

4. If it is accepted that we are committed to allow entry to the "half million" dependants of existing immigrant settlers, then (whether or not we make the change in relation to dependants of future settlers discussed in the previous paragraph) it seems to me quite indispensable, if we are to have any hope at all of allaying the present growing public disquiet, that we should be able to give positive assurances in our public statements that, so far as entrants other than dependants and voucher holders are concerned, we have taken powers sufficient to ensure that we can prevent, if not 100 per cent, at least a very high percentage, of evasion by other entrants, that is to say, in substance visitors and students and a few
nondescripts. I include in the term evasion both entry by fraudulent means, and failure to comply with conditions of entry such as students taking employment instead of pursuing a course of studies, or visitors overstaying their leave. My own opinion is that public opinion expects that really drastic proposals will emerge as the result of the Mountbatten Report, and if a large number of students and visitors are allowed entry as heretofore (as they clearly must), I am sure we would be in a completely indefensible position politically and otherwise if we had to concede that we had not taken sufficient powers virtually to put an end to evasion. I accordingly think that the following are quite indispensable:

**Repatriation**

5. (i) The Home Secretary should be given a general power to “repatriate”, or in other words deport. At present, in the case of Commonwealth immigrants, he can only repatriate if, following upon a conviction, the Court has recommended deportation. There must be a power to repatriate without any recommendation having been made by a Court. This power exists in the case of aliens.

   This power is recommended by the Mountbatten Report.

   (ii) the power should (subject to (iii) below) be exercisable in the case of all Commonwealth immigrants, i.e., voucher-holders and dependants as well as students and visitors. One may well get a voucher-holder who is just a lay-about and generally bad character, who refuses to do the work for which he has been admitted, and prefers to maintain himself and his family on National Assistance, being merely a burden and of no value to the community. At present, unless a Court recommends him for deportation on conviction for a crime, there is no method of compelling his departure. The power to repatriate would be very rarely exercised in the case of voucher-holders and their dependants, being far more often exercised in the case of students and visitors.

   (iii) the power to repatriate should continue until the immigrant has been resident here five years, this being the statutory period after which a Commonwealth citizen can exercise his right to be registered as a citizen of the United Kingdom and Colonies, and thus become a citizen in the full sense. This registration is the equivalent in the case of a Commonwealth settler to naturalisation after five years residence in the case of an alien (except that the alien has no absolute right to be naturalised, this being a matter of discretion; whereas the Commonwealth settler has an absolute right to be registered after five years). Up to the time that he is registered, the legal status of an immigrant settler is that of a “British subject and citizen of [e.g., Pakistan, or India, or whatever is the Commonwealth country of his origin]”; or, in some cases, “a British subject without citizenship”, (i.e., of any particular Commonwealth country). Once he has become registered, the power to repatriate should no longer be exercisable against him, even if he originally obtained entry into the country by a blatant fraud—after five years bygones should be allowed to remain bygones.
(iv) So far as appeal against a repatriation order is concerned, the Commonwealth immigrant should have the same facilities as are available in like case to aliens—that is to say, if he has been lawfully resident here for more than two years he should be able to make representations to the Chief Magistrate (except when a question of security is involved, or when a Criminal Court has recommended deportation). The Chief Magistrate may uphold or disagree with the Home Secretary's decision to repatriate or deport; but the Home Secretary is not bound by the Chief Magistrate's view though it is only in very rare cases that he does not give effect to the Chief Magistrate's decision. For purposes of administration I would greatly prefer that there should be no recourse to the Chief Magistrate when the repatriation is on the ground of breach of conditions of landing.

Conditions, including condition as to registration

6. The Mountbatten Report recommended that there should be a general power given to the Home Secretary to impose conditions, and I am given to understand that it was the clear intention of the report that the conditions would include a condition that the person concerned should register with the police and furnish them with a photograph. It was recommended in the report that the power to impose conditions (at any rate as to registration) should be sparingly used; but it was pointed out in the report that it would be appropriate for the Immigration Officer to impose conditions when he entertained suspicions about the \textit{bona fides} of the entrant, but not suspicions sufficiently strong to justify the refusal of entry.

I am convinced that we need a power to impose conditions, including a requirement that the entrant should register with the police, and supply a photograph; but I also accept that the power to require a would-be entrant to register should be sparingly used, and that a requirement to register should in general only be imposed in cases such as mentioned above, namely when the Immigration Officer suspected the entrant but not strongly enough to refuse him entry. Without the power, I would be obliged to concede if questioned that I could make little impact on the scale of evasion, because there would be precious little chance of keeping track of or finding the evader, even if I could repatriate him when found. Even with the power to require registration, I could often not prevent the determined evader from slipping through the net; but there would be a much better chance of doing so. If I had the power, the apparently \textit{bona fide} visitor would as now pass through the immigration barrier without particulars being taken by the Immigration Officer. For example the apparently genuine Indian business man would be treated exactly as at present. The Immigration Officer would look at his passport, stamp it for, say, a six months' visit, put a tick in the appropriate part of the "cage" to record that an Indian visitor had passed the barrier, no entry would be made in the "traffic index" at Holborn, and when the same man passed through the barrier on his way back to India, the Immigration Officer would simply again put a tick in the "cage" to show that an Indian had left the United Kingdom. If, however, the Immigration Officer...
entertained suspicions about a would-be entrant, he naturally could refuse him entry. To refuse entry might seem harsh if the Immigration Officer had only a "hunch" based on no very solid evidence. The Immigration Officer would in such a case (it might be one in ten or one in fifty) take full particulars about him, stamp his passport (if he were a visitor) for a visit of three months or less, and allow him entry for three months on condition he went straight to the police nearest to his address, and registered, depositing as soon as possible a photograph. The police in question would be notified and particulars of the entrant carded into the traffic index. If the entrant did not register, it would be possible to search for him at once. As I stated earlier, the determined entrant might well evade the control, but there would be much more chance of finding him if a search started at once than if three months had gone by and it only then became apparent, because the traffic index did not show he had departed, that he was an evader. I am advised that with this power, Immigration Officers with their "nose" for the evader could make a significant impact on the present scale of evasion.

Indeed the power to require registration may be of advantage to many would-be entrants. It might be necessary for the Home Secretary in order to reduce the scale of evasion to direct Immigration Officers to refuse entry even if they have no more than a "hunch." I should be reluctant to give such a direction, but if the figures of net intake increase, as they are at present, a Home Secretary may well feel he has no alternative. This might well cause hardship in the case of persons who may appear suspicious, but are really perfectly genuine. I accordingly regard the power as indispensable. In my view it should be exercisable in the case of entrants of all types, because fraudulent entry is not confined to any category of entry. For instance fraudulent entry by bogus dependants is not at all uncommon.

Apart from special conditions as to registration, the general power to impose conditions would naturally be used for the purpose of prescribing, for example, the length of the period of stay in the case of a visitor and requiring that he should follow a particular course of study in the case of a student, and so on. Naturally in such cases the condition would be imposed in the case of all visitors and students, not only those with regard to whom the Immigration Officer entertained a suspicion.

7. Apart from the general powers above mentioned, I would mention the following changes which I think of great importance in the case of individual categories of entrant.

A. Dependents

(i) Apart from wives and children under 16 who are under section 2 of the Act entitled to entry, it has been the practice of the Home Office to admit as a matter of discretion other dependants, for example, children between 16 and 18 accompanying or joining their parents. The Mountbatten Report recommends that this practice should cease, although the Home Secretary should still
admit "non-entitled" dependants in exceptional cases when he thought there was special compassionate grounds. I entirely agree with this.

(ii) As I stated earlier, I think we would be in breach of faith if we did not allow entry to the "half-million" entitled dependants of existing settlers. Under section 2 of the Act however we are only bound to allow such entry to persons who "satisfy" the Immigration Officer that they are in fact the dependants they claim to be. It does not seem to me to be inconsistent with our obligation, to make it clear that we will require compliance in advance with certain steps we think necessary to enable our Immigration Officers to check on the identity of those arriving. For example, as has already been proposed we could make it a requirement that any settler should by a certain date (in time to enable us to check) state to the immigration control or to our High Commissions overseas, as the case may be, particulars of the dependants he will in due course wish to bring to this country or by whom he will be accompanied on arrival and deposit identity documents and photographs supporting the particulars he gives. It would be made clear that ordinarily dependants will not be admitted unless there has been compliance in advance with such requirements. Other methods of checking may as circumstances dictate also be found to be worthwhile and could also be imposed, provided that they are in no sense oppressive and are completely non-discriminatory as between coloured, white and alien immigrants.

B. Visitors

The report recommended that, in order that Commonwealth visitors should receive more favourable treatment than aliens, a bona fide Commonwealth visitor should be admitted for six months. An alien is only admitted for three months and if he is allowed to stay longer is required to register. I agree to this.

C. Students

The report recommends that their High Commissions should be encouraged to vouch for them. This would be not unuseful so far as it goes; but it will have little application in the case of the student who decides after being admitted, either immediately or after a period of time to give up his studies. At present students are admitted in the first place for one year, and their position is then reviewed. I would propose to continue this practice.

I think consideration should be given to amending section 2 of the Act to provide for a more limited definition of the kind of educational establishment for which students can be admitted. Establishments which for example train hairdressers, are, I should have thought, not the kind of educational establishments envisaged in the Act; but they have in fact been used to secure entry for a would-be student at such an establishment.
D. Voucher holders

I would support the recommendation in the report that they should be able to speak English.

8. There is I think little reason to preserve the statutory right to enter of the visitor who can maintain himself from his own resources. Surely his right should be discretionary as in the case of other visitors. Few in fact are involved.

9. The above requirements I think are necessary from the Home Office departmental point of view, if any real impact is to be made in reducing the present-day scale of evasion.

F. S.

Home Office, S.W.1,
6th July, 1965

CABINET

IMMIGRATION OF ASIANS FROM EAST AFRICA

Memorandum by the Secretary of State for the Home Department

The problem

I wish to draw my colleagues' attention to the existence in the newly independent countries of East Africa of a considerable number of people of Asian origin who, if they choose to come to this country, are not subject to control under the Commonwealth Immigrants Act.

2. Part I of the Act (which provides for control of immigration) applies to a citizen of the United Kingdom and Colonies only if his passport is issued by or on behalf of the Government of a part of the Commonwealth outside the United Kingdom. After a territory has become an independent member of the Commonwealth, its Government issues passports only to those of its inhabitants who have become citizens of the new State. The others who have remained citizens of the United Kingdom and Colonies must then obtain their passports from the United Kingdom Government through the High Commission; and passports so obtained exempt them from our immigration control. The citizenship legislation of the newly independent countries of East Africa did not confer citizenship automatically on either -

(a) persons who had become citizens of the United Kingdom and Colonies by registration or naturalisation in the country concerned, or

(b) persons born in the country both of whose parents were born abroad.

The vast majority of such persons are Asians of Indian or Pakistani origin who have no connection with the United Kingdom, but who have no citizenship other than citizenship of the United Kingdom and Colonies.

Arguments for control

3. We cannot tell with any accuracy how many of these people there are, but it is thought that there may be as many as 150,000 in Kenya and perhaps another 100,000 in Uganda and Tanganyika. Malawi and other territories, including those still dependent, might account for another 25,000 or 35,000.
4. At first these people showed no tendency to migrate to the United Kingdom but reports from the immigration staff at London Airport since December last indicate that they are now arriving at the equivalent of an annual rate of at least 5,000. Only the arrivals of large parties are reported; since these people are exempt from control, the arrival of individuals or single families is not normally noted. Nor do any of them appear in our statistics of Commonwealth Immigration, which relate only to people subject to control. The political, economic and social factors which induce them to leave East Africa seem unlikely to change for the better in the near future. It is hard to justify letting them enter the United Kingdom freely while contemplating more stringent restrictions on other categories of Commonwealth immigrants.

Means of securing control

5. To bring these people within the scope of Part I of the Commonwealth Immigrants Act it would presumably be necessary to amend section 1 of the Act so as to provide that a citizen of the United Kingdom and Colonies who holds a United Kingdom passport shall be exempt from the control only if he "belongs" to the United Kingdom in a sense to be specified in the amended provision. The qualifying connection with the United Kingdom would probably be that the individual or his father or his father's father -

(a) was born in the United Kingdom; or

(b) was naturalised in the United Kingdom; or

(c) was registered as a citizen of the United Kingdom and Colonies in the United Kingdom or in a country which at the date of registration was mentioned in section 1(3) of the British Nationality Act 1948; or

(d) was adopted in the United Kingdom.

7. In view of the pressure of Commonwealth immigration I have thought it right to bring the circumstances outlined in the paper to the attention of my colleagues. My own view is that legislation depriving them of their existing rights and status as citizens of the United Kingdom and Colonies would be difficult to justify. On the other hand it may be argued against this view that it is not practicable, within the limits of the absorptive capacity of this country, to acquiesce in the entry of another quarter of a million or more persons of Asian descent who have little or no connection with the United Kingdom, and that investigation of possible forms of legislation to change their legal status and reduce the numbers entering should be undertaken. Clearly the form of any such legislation would have to be most carefully examined; but if, in principle, my colleagues are of opinion that such legislation is unavoidable, the necessary studies should begin at once before the rate of arrivals increases substantially, as it is perhaps in the nature of things likely that it will, over the present annual rate of 5,000.

I accordingly invite my colleagues to decide -

(i) whether we should accept the position that these entrants should have an unqualified legal right to settle in the United Kingdom on a permanent basis; or

(ii) whether studies should be immediately begun with a view to framing legislation to alter their legal status as citizens of the United Kingdom and Colonies, so that their entry may be restricted.

Home Office, S.W. 1.
6th July, 1965

F. E.
6th July, 1965

CABINET

REPORTS BY SIR LESLIE MARTIN AND
PROFESSOR BUCHANAN ON THE WHITEHALL AREA

Memorandum by the Minister of Public Building and Works

Introduction

Almost all prospective building within the Whitehall area has been held up for the past 12 months to await Sir Leslie Martin's plans for the future development of this area. I have been studying the reports since Easter and have arranged to publish them on 19th July.

2. The reports are long and detailed. Copies are available for Ministers who wish to study them, but the salient features are recorded at Appendix B. I have had prior discussions with my colleagues in the Home Affairs Committee and have reached substantial agreement on most of the main points. Only the question of building Government offices in the long-term remains unresolved.

Government's statement

3. We simply must state our intentions when the report is published. The plans are far reaching in their concept and timescale. They may not be fully realised for half a century. If we do not lay down general principles and disciplines now, all this effort will be lost in the quicksands of detailed criticism and aesthetic argument. Piecemeal development will follow, to the general detriment of the area.

4. My proposed statement, to which I seek my colleagues agreement, is at Appendix A. It covers the three essentials:

   (1) the need for a Parliamentary precinct;

   (2) the need to develop the Bridge Street site for Parliamentary purposes, and as Government offices;

   (3) feasibility studies should be made of Martin's plans to build a riverside tunnel from the Embankment to Lambeth Bridge, and of Buchanan's road proposals.

A statement on these lines does not commit us to immediate expenditure or construction, but is essential if we are to deal at all with the Foreign Office and Commonwealth Relations Office accommodation.

Government building

5. I see no conflict between my proposals and the present policy of restricting office development in London. First, we must have regard to the timescale. Secondly, Whitehall and Parliament Square, as the administrative centre of the Commonwealth must be in a class apart from...
other office development. Thirdly, all experience shows that the cost of housing civil servants in leasehold building, scattered throughout London is absurdly high; on grounds of economy and efficiency we must concentrate them in Crown buildings, at a fraction of the annual cost.

6. My intention is to work within the guidelines of Sir Leslie Martin's plan. First, by developing the Bridge Street site, around which we have purchased property. Left as it is, it will degenerate into a slum. The construction of Government offices behind the Parliamentary building will enable me, as a second step, to replace the present Foreign Office building - a decision inherited from the previous Administration. If a decision were taken tomorrow, it would be over six years before it could be started because of the need to decant its present occupants, and other consequential moves. Further development can take place as the economic situation permits, but we must have an overall plan. The Martin framework is a comprehensive survey, the biggest of its kind. We need to take these steps to move towards a centre worthy of the Commonwealth, to create a Parliamentary precinct from which much of the traffic will be removed, and to increase the quality and decrease the cost of Government accommodation.

Conclusion

7. If the initial decisions are taken, we will get great credit as a Government sensitive to town planning and architectural considerations. We can then await informed public and technical comment. We can then proceed to examine this gigantic concept in detail, piece by piece. But we must state firmly on publication our intentions for the future. This must not be just another White Paper. The country would expect a lead from this Government and they should get it. Apart from the building behind Bridge Street, there is nothing I want which offends against the current legislation on office development in London. To expect that everything will be the same in ten years' time, with all the restrictions in force, seems to me pessimistic and unrealistic. In the timescale of the plans our present restrictions are ephemeral.

8. I seek my colleagues' agreement to say, on behalf of the Government, that:-

(a) we welcome Sir Leslie Martin's proposals as a long-term programme for the redevelopment of the Whitehall area;

(b) we shall develop the Bridge Street site for Parliamentary and Government purposes;

(c) we shall initiate further studies of the proposed tunnel, which may make a major contribution in drawing off traffic from Parliament Square, and of the other traffic aspects of the plans;

(d) the Government intends to carry out future building within the framework of the plan, so far as this is consistent with current office building restrictions in London.

C.P.

Ministry of Public Building and Works, S.E.1.

6th July, 1965
APPENDIX A

DRAFT STATEMENT

Sir Leslie Martin and Professor Colin Buchanan were appointed in the spring of 1964 as consultants to advise on the redevelopment of the Whitehall area. Their reports are published today, and are available in the Vote Office.

The Government welcomes these reports, and regards them as the framework within which future development of the Parliament Square and Whitehall areas should take place. We are in sympathy with the concept of a precinct in and around Parliament Square from which traffic not serving the area should gradually be withdrawn.

We recognise that how, when and to what extent traffic can be removed from Parliament Square must be looked at in the context of London traffic as a whole. We will promote studies of the proposal for a riverside road tunnel between the Embankment and Lambeth Bridge and the Horseferry Road improvements.

The Government accepts in principle the proposal for a new building for Parliamentary purposes on the Bridge Street site, and hopes to proceed with it as soon as possible. The Government also accepts that the remainder of the Bridge Street site should be developed for Government offices as a necessary part of the subsequent redevelopment of the Foreign Office site. In regard to further Government building, we are in accord with the general principles set out by Sir Leslie Martin. Further study will be given to the remaining building proposals in the reports, but during the currency of the present restrictions on office building in London, development will generally be carried out in conformity with this policy.

On behalf of Her Majesty's Government I thank Sir Leslie Martin and Professor Buchanan for their imaginative proposals. The redevelopment of this area, which is the heart of the Commonwealth, may not be completed in our generation. It must be governed by economic priorities. But we must lay down now the disciplines within which the development may be carried out.
APPENDIX B

Sir Leslie Martin was commissioned by the Minister of Public Building and Works in April, 1964, to act as consultant to ensure that various proposals under consideration for redevelopment in the Whitehall area were related to each other and had regard to the general architectural character of the area, taking into account relevant traffic considerations, and to prepare a report. In May, 1964, Professor Colin Buchanan was appointed by the Minister to act as consultant on traffic with Sir Leslie Martin.

2. Below are summaries of Sir Leslie Martin's and Professor Buchanan's reports, which were presented to the Minister of Public Building and Works in April of this year.

Report by Sir Leslie Martin

Foreword

3. The report concentrates on what might be achieved in the area around Parliament Square and Whitehall if all the current building proposals are seen as parts of a total plan. These include the redevelopment of the site between Bridge Street and Richmond Terrace, to provide accommodation for Parliament and Government offices; of the Foreign Office; (eventually) of the Government Offices, Great George Street; and of the area between Great George Street and Broad Sanctuary (including a new Government Conference Centre).

4. The main recommendations are as follows:

(1) The opportunity presented by the building proposals to create a new setting around and a new environment within Parliament Square should not be lost.

(2) The building proposals should be accompanied by a policy of improving the environment and amenities by the gradual removal of traffic which merely passes through but does not serve the area.

(3) The Palace of Westminster and Westminster Abbey should dominate the area, and the former should not be extended in any way that would change its external appearance. Other historic buildings in the area should be preserved and enhanced within a new setting.

(4) An area, based on Parliament Square, should be reserved for buildings associated with State and Government. A new Parliamentary building should be erected on the Bridge Street site and another building of national or international significance erected on the Broad Sanctuary site, embodying the sites of the Middlesex Guildhall and of the buildings along Great George Street.
The Bridge Street, Foreign Office, and Great George Street sites should be redeveloped for Government offices, together with some public amenities, to form the north end of the precinct; the area around the Westminster Central Hall would be redeveloped to form the western enclosure to the precinct; and there would be new residential development along the line of Great Peter Street to form the southern enclosure to the precinct.

The area at the northern end of Whitehall should be considered further as part of a study of the needs of the Trafalgar Square in relation to Whitehall and other adjoining areas.

The opportunity of general rebuilding should be taken to rationalise building lines and the layout of public services, and to provide adequate underground garaging, service roads, etc.

Sir Leslie Martin makes it clear that the main building operations could go ahead without any major road changes at the centre, but points out that an appropriate environment cannot be created, nor can the area adequately satisfy its national and public functions, until traffic which merely passes through but does not serve the area is withdrawn.

**Basis of Sir Leslie Martin's plan**

5. In the Abercrombie Plan of 1943, an area between the river and Strutton Ground, and Parliament Square and Horseferry Road, was envisaged as a precinct. The London Development Plan of 1962/63, also recognised this as a Government and Commonwealth Centre.

6. The following are regarded as appropriate activities within the triangle formed within Lambeth Bridge, Charing Cross and Buckingham Palace:

   (i) Uses associated with State occasions, bringing into relationship Buckingham Palace, the Abbey, the Houses of Parliament and Whitehall.

   (ii) Government uses, which spread beyond the Palace of Westminster and the buildings along Whitehall into the surrounding area.

   (iii) Public uses, including sight-seeing.

7. Parliament Square is at present one of the six most heavily trafficked intersections in London. Sir Leslie Martin considers methods of taking traffic out of Parliament Square. A tunnel beneath it would run up against the Underground District Line, and even if practicable would be extremely costly and not provide more adequate facilities for the area as a whole. The creation of a separate pedestrian level would not contribute to easing the traffic situation. Hence, he favours a riverside tunnel road from the Victoria Embankment to Millbank to cope with north-south traffic, and the improvement of the Lambeth Bridge/Horseferry Road route to cope with east-west traffic.
The components of Sir Leslie Martin's plan

Historic and other buildings and spaces

8. Sir Leslie Martin envisages the retention of the Westminster Central Hall (but the eventual removal of the Middlesex Guildhall and the buildings on the south side of Great George Street); of Downing Street, the Old Treasury, Horse Guards, 36 Whitehall, Admiralty House and the Admiralty Screen group of buildings; of the Banqueting House (but the removal of the Royal United Services Institution and Gwydyr House); and of the Scotland Yard building by Norman Shaw as part of the redevelopment of the site from Bridge Street to Richmond Terrace.

Houses of Parliament

9. A Parliamentary building to provide 100,000 sq.ft. net of accommodation is proposed, with 180 ft. frontage to Bridge Street, stretching back to a depth of 280 ft. This building would be linked by a covered way to the colonnade at the foot of the Clock Tower so as to form part of the present Palace of Westminster. Ultimately, with the greater space afforded by the riverside tunnel, this building could be increased to 150,000 sq.ft. net and be provided with a forecourt linking it below Bridge Street to Speaker's Green.

10. A number of ways are suggested in which additional accommodation might be provided for Parliament within the Palace of Westminster, e.g. by building out over existing buildings, and by adapting space now unsuitable for use or unsuitably used.

The Broad Sanctuary area

11. Instead of the present plan to erect a Government Conference Centre of 33,000 sq.ft., with offices of about 77,000 sq.ft., the opportunity should be taken to erect in time a larger building to cover this site and the sites of the Middlesex Guildhall and of the existing buildings on the south side of Great George Street, which include the present Headquarters of the Royal Institution of Chartered Surveyors and the Institution of Civil Engineers. This building would provide:

(a) A Conference Centre of 33,000 sq. ft., to which might be added a Conference Hall for 2,000 people, capable of sub-division;

(b) a Reception Centre with suites of rooms for entertaining, dining, refreshments, etc;

(c) a tourist and visitors' centre with enquiry and refreshment facilities, exhibition space, roof restaurant and viewing areas.

12. Sir Leslie Martin does not consider that Government offices or the Headquarters of Professional Institutions are appropriate uses for the site. He suggests that alternative space should be found in the vicinity for the R.I.C.S. and I.C.E. Pending redevelopment, the Middlesex Guildhall and its Annexe in Great George Street might be taken over by the Government.
Government Office buildings

13. The redevelopment of the site between Bridge Street and Richmond Terrace, the site between Great George Street and Downing Street, and the present Admiralty, War Office, and neighbouring Ministries could make room for an additional 10,000 or so Government staffs in the area. The last group of buildings he considers should be considered further as part of a study of the Trafalgar Square area. The redevelopment of the first two sites are seen as part of the process of forming the inner precinct. The report comments on the uneconomic design of the buildings on the site between Great George Street and Downing Street, and the opportunity that redevelopment of this and the Bridge Street site affords for providing efficient accommodation for housing Government Departments in the area: about 1,400,000 sq. ft. net of usable office space could be provided on these sites, to house some 11,000 civil servants (about 7,000 more than are at present in the area), as follows:

(1) Besides the 100,000 sq.ft. building for Parliament, 396,000 sq. ft. of net office for 3,700 or so staff (plus 360 car parking places) could be built on the site between Bridge Street and Richmond Terrace, together with about 40,000 sq.ft. of shops and a new 21,500 sq.ft. Cannon Row Police Station. The Government offices might be extended to 459,000-519,000 sq.ft. when the additional space provided by the riverside road tunnel is available or, alternatively, this extra space might be used for public amenities.

(2) 462,000 sq.ft. net of offices for 3,700-4,000 staff could be built on the Foreign Office site (with 800 parking places) and 522,000 sq.ft. net for 4,200-4,500 staff on the site between Great George and King Charles Street (with 650 parking places).

All these development could take place without exceeding the height of the present buildings (approximately 80-90 ft.). They could be linked by a main gallery running just south of King Charles Street and Derby Gate, crossing Whitehall and so linking the riverside with St. James's Park. On the Bridge Street site at ground level, the Gallery would provide a public pedestrian way with a shopping concourse and a new entrance to the Underground railway. On the upper levels of the Gallery, there would be a separate pedestrian way for official traffic and offices. A further block of offices would run south of Richmond Terrace and Downing Street, not linked across Whitehall, and possibly cut back in front of No. 10 Downing Street to create a small 'place'. Other blocks of offices would run at right angles to, and link, these offices and the main gallery (one of them linking the conference building in Broad Sanctuary through to Downing Street). A feature of the design envisaged by Sir Leslie Martin is the stepping back of the sides of the blocks of offices and the formation of courts opening to the south.

14. The report draws attention to the opportunity for rationalising services to Government buildings in the Whitehall area.
Related Areas

15. To form the southern enclosure to the precinct, and at the same time safeguard the future of this area for residential purposes, 450 flats to accommodate 1,000-1,250 people could be built along the line of Great Peter Street and across the Victoria Tower Gardens.

16. The redevelopment of the area at the rear of the Central Hall could include accommodation for the R.I.C.S., the I.C.E. and possibly also the Institution of Mechanical Engineers if their building is affected by improvements in Birdcage Walk, and also provide ground-level parking facilities for coaches.

17. The implications of redeveloping the area from Tothill Street south to Horseferry Road along Great Smith Street for Government needs should be seriously studied before individual development projects eliminate the possibility.

18. The alignment of Whitehall should be further studied, in the light of the suggestion that he makes that the line of Parliament Street might be continued across Charing Cross Station to link up with the British Museum.

Professor Buchanan's Report

19. Professor Buchanan studies the traffic problems produced by regarding the area under study as an environmental area from which through traffic would be excluded. He also considers that very similar standards should be aimed at in adjacent areas of central London, and concludes that a primary route network of eight-lane highways would be needed to achieve this. The most important part of the network so far as the Whitehall area is concerned, would be:

(a) Along the line of Vauxhall Bridge Road up to Hyde Park Corner, going below ground past Victoria Station.

(b) Through Hyde Park Corner, south-east of Piccadilly and behind Trafalgar Square—underground all the way.

(c) Through the Trafalgar Square area and Waterloo, above ground and over a new Thames bridge on the line of Charing Cross railway bridge.

(d) From Vauxhall to Waterloo, south of the river.

20. Meanwhile, Professor Buchanan considers that a good part of the traffic on the road in the Parliament Square area could be diverted by building a Thames-side tunnel roadway, to take north-south traffic from Whitehall and Victoria Embankment making for Millbank, and by widening the Horseferry Road route across Victoria Street through Buckingham Gate and Buckingham Palace Road to Victoria Station, to take east-west traffic. If the primary grid were subsequently provided, these would be no more than distributors for local traffic but their existence would still be essential to keep traffic out of Parliament Square.
CABINET

LAND COMMISSION: WHITE PAPER

Memorandum by the Minister of Land and Natural Resources

I attach, for the approval of the Cabinet, a draft of a White Paper on the Land Commission.

F. T. W.

Ministry of Land and Natural Resources, S.W.1.,

8th July, 1965
1. For centuries the claim of landowners to develop their land unhindered and to enjoy the exclusive right to benefit from socially created values when their land is sold for development has been questioned, especially when it is sold to the community which itself has created the value realised. However, the view that, in a modern society, control over development must be exercised by the community is not now seriously disputed and it is increasingly being accepted that the value attached to land by the right to develop it is a value which has substantially been created by the community, who should accordingly be entitled to benefit when that right is exercised.

A growing population, increasingly making their homes in great cities, has not only made effective public control over land indispensable; it has also made wholly indefensible a system which allows landowners or land speculators to appropriate the substantial increases in the value of urban land resulting either from government action, whether central or local, or from the growth of social wealth and population.

2. There is no novelty in proposals to secure for the community at least a share in the values it has itself created. An Act of 1427 sought to recover increases in the value of property attributable to public expenditure on works for sea defence, and in the reign of Charles II there was statutory appropriation of a part of landowners' unearned enhancement or "melioration" assessed upon the benefits of street widening in London. In the late nineteenth century schemes to generalise this principle of betterment, as it came to be known, resulted in various legislative expedients. These were gathered up and systematised in 1942 in the recommendation in the Report of the Expert Committee on Compensation and Betterment under the Chairmanship of Mr. Justice Uthwatt.

3. The main recommendations of the Uthwatt Committee were implemented by the Labour Government in the Town and Country Planning Act 1947, which vested in the State all development rights in land. Anyone wishing to

*There are separate Town and Country Planning Acts for Scotland. Where necessary references to these are inserted in the text.
develop land had to recover the right to develop by payment of a development charge to the Central Land Board. A capital sum of £300 million was available for payments to those who established claims that the value of their land had depreciated as a result of the Act.

4. The Central Land Board were also given powers to buy land compulsorily for the purpose of disposing of it for development. The Uthwatt Committee had considered that public acquisition, if need be by compulsion, was the only satisfactory answer to the problem of comprehensive development and of securing betterment. In practice doubts arose about the validity of the precise powers given to the Central Land Board and they were not used widely until they had been tested in the courts. By the time this had been done, however, the Conservative Government had, by the Town and Country Planning Act 1953, abolished development charges.

5. The 1953 Act, a stop-gap measure, was followed by the Town and Country Planning Act 1954 which removed the restrictions on private sales of land so that those sales took place at market price. A two-price system was thereby created; one level of prices being paid when land having development value was sold privately with a much lower level of prices paid for compulsory purchase. This two-price system was so clearly inequitable that the Government were forced to eliminate it and this they chose to do by the Town and Country Planning Act 1959 which restored market value as the basis for compensation on compulsory purchase.

6. Since the removal in 1959 of the last restraints on the market in land for development, land with planning permission for development or even with the hope of such planning permission, whether stimulated by a development plan or not, has been fetching ever-increasing prices. High prices have been obtained by those who owned land which received permission for development. These prices have inflated the amounts which must be paid by public authorities when buying land for their essential purposes and have thus imposed a

Compensation for refusal of permission to develop land, however, was limited to the amount of any unexpended balance of development value established as existing in 1947 for the purpose of a claim on the £300 million and this limitation still continues. A similar limitation was imposed upon the element of development value in compensation payable on compulsory purchase of land.
heavy burden upon their resources. They also limit the opportunities for owner occupation. Moreover, since in certain circumstances, a refusal of planning permission can lead to a local authority being forced to acquire land at a price settled as though a planning permission had been granted, the fear of the consequent cost may in some cases have led to wrong planning decisions being taken.

II. The Objectives

7. In the Government's view it is wrong that planning decisions, which are public decisions about land use, should so often result in large unearned increments being realised by owners of land which receives planning permission for development. Moreover it is also wrong that the higher prices thereby established should in turn have to be paid by public authorities buying land for their essential purposes. Desirable development may be frustrated by owners withholding their land in the hope of higher prices, and high costs discourage public authorities from buying land in advance in order to ensure its orderly development. Therefore the two main objectives of the Government's policy are:

1. to secure that the right land is available at the right time for the implementation of national, regional and local plans;
2. to secure that a substantial part of the development value created by the community returns to the community and that the cost of land for essential purposes is reduced.

III. The Solution

8. The Government intend, very shortly, to introduce a Bill designed to achieve these objectives by establishing a Land Commission which, and in line with the recommendations of the Uthwatt Committee, will have widespread powers to acquire land compulsorily. The Commission will do so on a basis which will give the owner the value of the land for its current use and an amount sufficient to cover any contingent losses by the owner plus a further amount - a part of the value arising from the prospects of development - to encourage the willing sale of land for development. The Bill will cover Scotland as well as England and Wales and will include any adaptations necessary because of differences in the Scottish system of land tenure and
conveyancing. These adaptations are not expected to be long or complex. Some of the more important are mentioned later in this Paper.

9. The Government recognise that it would be administratively impracticable for the Land Commission to buy all land needed for development at the start of their operations. But, if some land for development is being bought by the Commission at current use value plus a part of the development value while other land changes hands on an unrestricted basis, there will be a two-price system such as existed under the 1954 Act. To avoid this difficulty the Bill will provide for a levy at a uniform rate on development value when it is realised by transactions in land and also, to the extent that development value has not been realised in a previous transaction, when it is realised by the actual development of land. The levy will be collected by the Commission and paid into the Exchequer.

10. The levy will be comprehensive; it will apply to development value realised in sales of land to local and other public authorities under compulsory purchase powers or by agreement as well as in private transactions. The Land Commission themselves, when buying land, will collect the levy by deducting it from the price they pay, so that the net payment made to the owner will in effect be the current use value of the land plus a part of its development value. The levy will thus equalise the basis of prices paid by the Commission on the one hand and by local and other public authorities and private purchasers on the other. Subject to this, the market value basis of compensation for compulsory purchase at present in existence will continue unchanged for the Commission as well as for other public authorities.

IV The Commission

11. The Land Commission will comprise a chairman and not more than eight other members, appointed jointly by the Minister of Land and Natural Resources and the Secretary of State for Scotland ("the Ministers"). One member will be appointed after consultation with the Secretary of State for Wales. The Commission will operate throughout Great Britain through offices in Scotland, Wales and the regions.

*Development value included in compensation paid for revocation of planning permission or for other actions depreciating the value of the land will also be subject to levy.*
12. Although the Commission will have a considerable degree of independence they will be subject to policy directions by the Ministers and they will, of course, operate entirely within the framework of the Act and the regulations made under the Act. Moreover, although the Commission will exercise their functions on behalf of the Crown, they will be made subject to planning control under Parts III and IV of the Town and Country Planning Act 1962, or, in Scotland, the corresponding provisions of the Town and Country Planning Acts 1967 to 1965.

V. Powers of Acquisition

13. The Commission will be able to buy by agreement any land which they have reason to think may be needed for development. However, despite the fact that a landowner will receive broadly as much when land is sold to the Commission as when it is sold privately and that the levy will leave enough development value with the landowner to provide an incentive to him to offer his land for development, nevertheless, it is possible that some owners will be unwilling to sell their land to the Commission even though it ought to be developed and some may also, for fear of the levy, withhold their land from private transactions. If the Commission's object to ensure that the right land is made available at the right time is to be achieved, therefore, the Commission must possess effective powers of compulsory purchase.

14. The Bill will therefore confer on the Commission comprehensive powers of compulsory purchase which will enable them to acquire any land on which there has been a planning decision that it is suitable for development. But these powers will be made available to the Commission in their entirety only on a date to be fixed by Ministers and they will not do this until their proposals have been approved by the House of Commons. In the initial stage of their operations the Commission's compulsory powers will be limited to the acquisition of:

(a) land which, in the opinion of the Commission, ought to be acquired by the Commission in order to secure its early development or redevelopment;

(b) land which, in the opinion of the Commission, ought to be acquired by the Commission in order to secure its development or redevelopment as a whole;
(c) land required by a public authority, possessing compulsory purchase powers, for the purpose of its functions;

(d) land which is to be disposed of to housing associations or through local authorities or directly on concessionary terms for private housing.

15. It will be necessary, before the Commission will be able to use powers of compulsory purchase, for there to be a planning decision that the land is suitable for material development.* The "planning decision" will be defined by regulations made by the Ministers and will include, of course, any planning permission and also allocations or definitions of land in development plans, the designation of land as the site for a new town and allocations or definitions of land approved by resolution of the local planning authority.

16. Although the Commission will have power to buy compulsorily land needed for the functions of a public authority, it is not intended to interfere with the existing powers of public authorities and the Commission will use their powers in such cases only with the agreement of the authority concerned or otherwise with the consent of Ministers.

17. Until they have fully built up their organisation, the scale on which the Commission can undertake the acquisition of land will be limited but to ensure that the orderly development of land is facilitated they can be expected increasingly to buy substantial areas of land in advance of requirements. Moreover, if landowners withhold their land and there is any risk that sufficient land to maintain the essential building programme would not reach builders, the Commission will use their compulsory purchase powers as swiftly and as widely as is necessary to bring forward the land required.

* "Material development" will be defined by regulations by exclusions from the definition of development in section 12(2) of the Town and Country Planning Act 1962, (section 10(2) of the Town and Country Planning (Scotland) Act 1947). Broadly material development will be development other than:

1. development covered by the Third Schedule to the 1962 Act, (Third Schedule to the Town and Country Planning (Scotland) Act 1947) (the notional right to carry out this development is included within the conception of existing use value);

2. permitted development under the General Development Order, and

3. development excluded from development charge under the Town and Country Planning (Exemptions from Development Charge) Regulations 1950, (the Town and Country Planning (Exemptions from Development Charge) (Scotland) Regulations 1950).
VI. Procedures for Compulsory Purchase

18. In order to simplify and to accelerate the administrative processes it is intended to amend the normal compulsory purchase procedure in two main respects. First, if there are no objections to a compulsory purchase order made by the Commission the order will become effective after 28 days without the need for confirmation by a minister. If objections are duly made within the 28 days the compulsory purchase order will require confirmation in the normal manner.

19. Secondly, once a compulsory purchase order is effective the Commission will acquire the land by means of a vesting declaration under a procedure very close to the expedited completion provisions in sections 74 to 76 of the Town and Country Planning Act 1962 and at present available to local authorities in certain circumstances. In Scotland the vesting declaration will be registered in the Register of Sasines. Such a vesting declaration will give to the Commission an overriding title to land, of which they can dispose, without waiting for a normal conveyance following an investigation of the vendor's title and the settlement of price. The determination of the compensation for acquiring an interest in land can proceed independently of the vesting and the Commission will be able in most cases to pay out more quickly by accepting without full investigation the title that the owner of the interest claims that he holds and by relying upon their ability to sue for recovery of overpayment and to prosecute in the unlikely event of a false claim. This procedure should reduce very substantially the work involved in conveyance of land. There would be similar advantages to all public authorities if they could use this vesting procedure and, although it is outside the scope of the intended Bill, an early opportunity will be taken to provide for this in separate legislation.

20. The Bill will also enable the Minister by Order to invoke temporarily and if necessary for certain parts of the country only a more rapid compulsory purchase procedure in which there will be some modification of the requirements relating to the service of notices and the holding of inquiries into objections.
VII Powers to Hold and to Manage and to Dispose of Land

21. The Commission will be acquiring land in advance of need - both undeveloped land and developed land in need of redevelopment. They will be given all the powers necessary to manage and to improve land while it is in their possession including powers to carry out any necessary works. The Commission will, however, be subject to directions from the Ministers on the extent to which these powers are to be used and, as already mentioned, will conform to planning and also to building regulations.

22. It is the Government's intention that, subject to control by the Ministers, the Commission's policy on the disposal of the land they acquire shall be as flexible as possible. Normally when land is made available to local authorities or other public bodies the freehold will be sold. In other cases disposals will be either by sales or by leases whichever is appropriate. If the Commission grant leases for houses they will normally be very long - say 999 years - and thus and in other ways the terms will take full account of the Government's policy for leasehold enfranchisement.

23. The Commission will have power to dispose of land subject to restrictions on future development. In particular they will have power to dispose of land for housing subject to restrictions which will reserve to the Commission all future development value. The Commission will be able to repurchase such property either to enforce the restrictions or when redevelopment is necessary on payment of the value subject to the restrictions. Such disposals will be "Crownhold".

24. The Commission will be able, in appropriate cases, to dispose of land for owner-occupied houses at less than its market price. They will normally do so to bodies which can effectively supervise the assignment of such houses, such as housing associations, co-operative groups and local authorities who are prepared to build houses for sale. With the consent of the Ministers, however, the Commission themselves will have power to provide houses for disposal direct. In such cases the disposal will be on a Crownhold basis and in addition to restrictions on development there will be provisions for control of assignment and recovery of the concessions. Owner-occupiers may also benefit from the operations of the Commission, however, by the use of some of the proceeds of the Commission's activities to finance cheaper mortgages.
25. The levy will differ from development charge under the Town and Country Planning Act 1947 in two important respects. First, the levy will not take all the development value. Secondly, the levy will normally be paid by the seller, leaving to be paid when the land is developed only levy on any residue of development value not reflected in previous transactions. In Scotland in certain circumstances where, for example, a feu duty has been increased or a sum of money has changed hands because of the granting of a waiver - part of the betterment levy may be payable by the feudal superior.

26. The levy is to take a prescribed proportion of development value when it is realised by a transaction or payment relating to the land or by development and is to be taken from the person who has actually realised it. Thus, to give a simple example, if an acre of agricultural land worth £300 as such is sold for £3,000 with a planning permission for housing, levy would apply to the difference between the market value and the agricultural value i.e. £2,700. If the land is developed immediately thereafter the market value at point of development would still be £3,000 and no more would be payable. However, if the land was not developed for, say, three years, by which time market values had risen and the value of the land was then £3,500, levy at point of development would be payable on the additional £500 then realised. It may happen that the land changes hands more than once before development. For example, the agricultural land might have been sold first without a planning permission, but with some hope that one would be granted, for £1,000. Assuming that there had been no increase in the agricultural value of the land the development value realised in the first sale would then have been £700, which would have been subject to levy. The purchaser having paid £1,000, if he then sold for £3,000 and the whole of the increase was development value, would have to pay levy on this increase of £2,000 which would be the development value he realised.

27. For the purpose of the illustration above the initial value to be subtracted has been described as agricultural value. More precisely the initial value may be made up of a number of components: the value of the land for its current use whatever that is, the amount of any unrealised...
development value in 1947 established by a claim on the £300 million compensation sum provided for by the Planning Act of that year and an allowance for cost of improvements which have increased development value. Levy will arise only in respect of the prospect of "material development" which is defined in the footnote to paragraph 15 above. Current use value is then the value of the land on the assumption that any development which is not material development would be permitted. This, in theory, is wider than "existing use value" as conceived in the 1947 Planning Acts but will not differ appreciably in practice.

28. Levying twice on the same development value is avoided by taking as base value - the sum to be subtracted from market value to find the amount on which levy is chargeable - either the current use value version of base value described in the paragraph above or the price paid in the last transaction in the land whichever is greater.

29. Owners will be able to claim as a last transaction for this purpose the price paid if they bought the land between 1st July 1948 (the appointed day for the purposes of the 1947 Planning Acts and therefore for establishing claims for loss of development value existing at that date) and the date on which this Paper is presented to Parliament. Transactions occurring between that date and the appointed day, when the powers of the Commission come into operation and transactions become subject to levy, will not be recognised for this purpose.

30. Development value will be excluded from chargeable gains for the purposes of capital gains tax or corporation tax. This will mean that from the time when the levy comes into operation it will be the main instrument for dealing with development value. The rate of levy can thus be determined independently in the light of the requirements of land for development and the need to recover betterment for the community. It will be prescribed by order at an initial rate of 40 per cent which in the Government's view is a modest rate leaving ample incentive to owners to offer their land for development. But it is the Government's intention to increase the rate progressively to 45 per cent and then to 50 per cent at reasonably short intervals. The question of increasing the rate further will be examined as the amount of
acquisitions by the Commission, and thus their ability to provide land for development, is extended.

31. As a transitional arrangement no levy will arise at point of development of land held at the date of presentation of this Paper to Parliament on which the owner can satisfy the Commission that he wishes to build a single house for occupation by his family. The exemption will relate to one dwelling per owner no matter how much land he may own.

32. As a further transitional measure, to avoid any risk of disruption of the house-building programme, no levy at point of development will be payable in respect of dwellings to be erected by builders or estate developers on land which they owned or were under a binding contract to buy at the date of presentation of this Paper to Parliament, provided that the development is carried out in accordance with a planning permission existing at the date of publication and, where land is under contract, only if the conveyance is completed within 12 months after the appointed day for the commencement of operation of the Commission.

33. No levy will be payable on the development or disposal of land held by local authorities for their social services but it will apply to land held by such authorities for commercial purposes which will not, however, include comprehensive development or town development. Similarly, levy will not be payable on the development or disposal of operational land of statutory undertakers or functional land of charities.

34. The levy will apply to non-Crown interests in land which is Crown land by virtue of a Crown interest but not to the interest of the Crown. The Duchies of Cornwall and Lancaster will, however, be empowered to enter into agreements with the Commission to make payments in lieu of levy.

IX. Assistance to Local Authorities

35. The Government intend that local authorities should benefit financially from the operations of the Commission. It would, however, be impracticable and inequitable to relate this assistance directly to the levy arising on the conveyances of the land purchased by each local authority, since the benefit could vary between local authorities in an arbitrary fashion and consequently it will be necessary to provide a more equitable method to ensure that local authorities benefit financially from the activities of the Commission.
36. A review of general and specific aspects of local government finance is at present proceeding, as a result of which grants will be revised and, as necessary, improved. In the course of this review there will be an examination of the means by which the additional assistance made possible by the operations of the Commission should be given to local authorities. The question is how this should be done. Many local authority services are grant-aided either through the general grant or by specific grants such as the highway grant and the housing subsidies. These grants are paid towards the whole cost of the particular service including the cost of the land and do not distinguish land costs as such, except in the case of the specific subsidy for expensive housing sites. While a specific grant towards the cost of land acquisition has the attraction of relating the benefit of the Commission’s operations directly to the cost of land it has many disadvantages. Thus the amount of grant would not relate to the needs or to the particular circumstances of the local authority or of the service concerned and most financial assistance might well be given to those areas which on regional planning considerations should have least.

37. Without prejudice to the discussions which are to take place it is the intention of the Government to ensure that in the current review of local government finance the gain to the Exchequer from the operations of the Land Commission will in one way or another be reflected in the general arrangements under which local authorities receive financial assistance from the Government.

Summary

38. The Government thus intends to achieve its objectives by a flexible system which, combining a levy with the other operations of the Commission, will both provide an effective and fair solution to the problem of compensation and betterment and ensure a sufficient and orderly supply of land for development.
CABINET

LAND COMMISSION

Memorandum by the Minister of Land and Natural Resources

I am circulating separately (C. (65) 95) a revised draft of the White Paper containing amendments made after discussion with some of my colleagues under the chairmanship of the Prime Minister. There are two issues of policy still outstanding: the rate of betterment levy, and whether the permanent endowment land of charities should be subject to the levy.

The Levy

2. At the meeting with my colleagues it was suggested that there should be a progressive rate of levy and officials were asked to consider such a proposal. I attach at Annex A a note by officials from which it will be seen that, while there is no difficulty, and on balance some advantage, in providing for a levy that will increase, some departments were doubtful of the wisdom of announcing in the White Paper the size of the increases envisaged. Officials all agreed that there would be serious disadvantages in prescribing the dates of increases. My own view is that it would be desirable to state firmly the size of increases that we have in mind, while giving only a general indication of the timing. Paragraph 30 of the White Paper contains the form of words that I should like to use.

The Permanent Endowment Land of Charities

3. Annex B sets out the position relating to charities and the arguments for and against excluding permanent endowment land from liability to levy. This paper was considered by the meeting of my colleagues under the chairmanship of the Prime Minister when it was suggested that it might be possible to distinguish between sales of such land for socially valuable purposes and sales which were not for such purposes. Officials were instructed to examine this suggestion and to report to me. They have now done so. They point out that charities are only accepted as such if their purposes fall within the definitions of charitable purposes as recognised by the decisions of the courts or as enacted; that furthermore the Charity Commissioners (or Church Commissioners, or Department of Education and Science) exercise full control over transactions in permanent endowment land (except in the cases of some university, college and other charities). Moreover the Charity Commissioners ensure in the case of charities under their jurisdiction that the proceeds are used as capital for the purposes of the charity. The Charity Commissioners and the
Department of Education and Science have, since the Charities Act 1960, full powers to revise these purposes if, e.g., they "cease to provide a suitable and effective method of using the property in the spirit of the gift". The purposes for which the Church Commissioners can use their income cannot be varied without statutory authority. There is no question, therefore, but that the proceeds of transactions in permanent endowment land would be used for proper charitable purposes. The Charity Commissioners add that, although their powers are ultimately governed by the decision and practice of the courts and not by the directions of Ministers in enforcing charitable trusts, they have, since 1960, been developing a system of consultation with welfare departments in order to give trustees advice on the most effective way of using charity property in the circumstances of today.

4. It would be impossible to distinguish among charitable purposes, solely for the purposes of levy, between those which were socially valuable and those which were not, without raising the whole question of whether purposes which the Government regarded as not socially valuable should be recognised as charitable at all. The Charity Commissioners would regard it as premature to embark on a re-examination of the definition of charities so soon after the passing of the 1960 Act and in any event this should not be decided as a side-effect of legislation about land. It would raise the strongest objections, for Ministers to be able, in effect, to favour some charities as against others.

5. I see force in these arguments and I have reluctantly come to the conclusion that it would be wrong to try to distinguish between charities in the way suggested and that we would be likely to run into political pressures and difficulties in practically every case. The question posed in paragraph 9 of Annex B, therefore, remains for decision.

F. T. W.

Ministry of Land and Natural Resources, S. W. 1.

8th July, 1965
At a meeting of Ministers which the Prime Minister held on 29th June, it was suggested that, on the basis that development value would be subjected only to the levy, and not to a combination of levy and capital gains tax (on which point the position of the Chancellor of the Exchequer was reserved), there would be advantage if the levy were made progressive. It was proposed that the levy should be at an initial rate of 40 per cent, and raised over a period successively to 45 per cent and 50 per cent. This proposal was remitted for examination by officials.

2. There would be no difficulty as a matter of machinery in raising the rate of betterment levy at intervals since the Bill will provide that the rate shall be fixed by regulations.

3. Beginning the levy at a rate of 40 per cent while announcing an intention to raise the rate in 5 per cent stages would provide an incentive to landowners not to withhold their land. But there are countervailing arguments. Landowners might well assume that the rate would not be increased at less than annual intervals and it has to be borne in mind that an additional 5 per cent of levy would not do much more than match the annual increase in land values. Moreover, while the Opposition might be unlikely to criticise a levy of 40 per cent, the incentive effect of the announcement would be reduced if they suggested to landowners that if there were a change of government the rate would not be increased. Some Departments would prefer, therefore, to give no indication, at least in the White Paper, of the size of the increases in the rate of levy although there could be advantage in leaving the impression that while the rate would not go down it might well go up in due course.

4. Officials were all agreed, however, that it would be undesirable to specify in advance the times at which the increases would take place. Such an announcement might precipitate rushes of land on to the market and rushes of starts of development before the levy was raised, followed by stagnation after the rise, followed by a further rush of starts before the levy was due to be raised again. Again, since the reactions of the market in land to the imposition of the rate of levy cannot be forecast with any precision, it seems essential to retain some flexibility in the system so that the date for increasing the rate of levy can be determined in the light of what is actually happening to the flow of land for development.
5. It would be desirable to avoid the implication that the rate of levy should never rise above 50 per cent. The Land Commission is intended to be permanent and even when it has extended its field of operations to acquire virtually all land required for development the levy will remain because the Commission will be purchasing at market value net of levy. But by then the Commission may well be in a position to take a share of the development value larger than 50 per cent.
The problem

The question at issue here is the extent to which land held by charities should be exempted from betterment levy. Charity land falls into three categories:

(i) functional land used by the charity for its functions, such as the provision of almshouses, churches or other buildings for charitable uses;

(ii) permanent endowment land, i.e., land given for the purpose of the charity to provide it with a perpetual income; (such land cannot be disposed of without the consent of the Court, the Charity Commissioners, the Secretary of State for Education or some other responsible authority. It may, however, be used for functional purposes from time to time);

(iii) land held by a charity which can be disposed of without restriction.

2. The Town and Country Planning Act 1947 vested the development value of land in the state and provided for a capital sum of £300 million to meet claims for compensation. The development of land became subject to a development charge. The Act distinguished between functional land, which was exempt because it could not be valued and consequently neither compensation nor the development charge could be assessed, and investment land (categories (ii) and (iii) above) which was treated in the same way as non-charity land. It is agreed that for the purposes of the betterment levy functional land should be exempt (for similar reasons) and that land in category (iii) - non-endowment land held as an investment - should not be exempt; but it has not been possible to reach agreement on a proposal that permanent endowment land should be subject to levy.

The amount of land involved

3. The value of land held by charities is not precisely known. It is thought that functional land (excluding sites of churches) may amount to about £330 million, and the remaining land held by charities to about £370 million, of which about three-quarters (say £275 million) may be permanent endowment land, and of this perhaps half is potentially subject to levy as development land. Perhaps half of permanent endowment land is owned by the Church Commissioners and by educational charities, including some public schools and Oxford and Cambridge colleges, and the rest by a wide
variety of charitable bodies which includes some large national charities such as King Edward VII Hospital Fund and Dr. Barnardo's, but consists mainly of large numbers of local charities of modest means which provide, for instance, gifts in cash, ministers' stipends, almshouses, homes for the blind or working men's institutes.

Arguments in favour of exempting permanent endowment land for levy

4. (a) Permanent endowment land is land given to produce an income in perpetuity for a particular charitable purpose. It has for centuries been public policy to respect the intentions of the donor, and not to interfere with charitable property.

(b) As a result of the recommendations of the Committee on Charities appointed in 1950 under the chairmanship of Lord Nathan, charities have become recognised as partners with the state in the welfare service. Their resources are already devoted to the welfare of the community, and there is no point in taking part of them in the form of development value in order to apply it to community purposes. To do so would be regarded as going back on the recognition of the partnership of the charities in the welfare state.

(c) Most charities (educational charities are an exception) depend on increases in the value of their permanent endowment land to maintain the purchasing power of their income in the face of rising costs and to provide capital for modernising and improving their properties. The control exercised by the Charity Commission and the Secretary of State for Education and Science over the sale of their land ensures that the trustees get the best obtainable price for their land and preserve the capital value of the endowment. In so far as the object of the levy is to ensure that increased land values are wholly applied to public purposes and do not go to private speculators, the existing machinery already secures this. The income of the charities maintaining institutions is in many cases fully committed, and their only source of capital for renewing either functional or investment buildings is the land itself. If part of the development value were taken from them some charities would be unable to carry on or to do so acceptably, and the sections of the community which they serve would suffer, for example, the old people living in almshouses which it was not possible to bring up to modern standards.

(d) Charities are traditionally exempt from taxation, and the levy would be in effect, if not in intention, a tax. In this respect and in the absence of compensation it differs from the scheme under the 1947 Act. Moreover, the position of charities has altered since 1947 when their role in the welfare state was still in doubt.

(4)
5. Similar arguments apply to the land held by the Church Commissioners, whose transactions in land have the sole objective under statute of providing income for the benefit of the Church of England, and in particular for clergy stipends and pensions. The Free Churches and the Roman Catholic Church would no doubt make a similar case for the exemption of any permanent endowment land held by them.

Arguments against the exemption of permanent endowment land

6. On the other hand, it is argued that

(i) a distinction should be drawn between betterment levy and taxation. The purpose of the levy is not to raise revenue, but to deal with the scandal of inflated land values by ensuring that increases in value resulting from the activity of the community do not accrue wholly to the owner. This principle applies, and should be seen to apply, equally to charitable and other landowners; and it is important to maintain that the betterment levy is not a tax, because if this were conceded the charities would be able to claim exemption for ordinary investment land as well as permanent endowment land;

(ii) since the levy is not a tax it would be hard for the Government to explain why the arrangements differed from those adopted in 1947;

(iii) it is not intended that the levy should take all the development value, but only a moderate part of it. The remainder should provide reasonable funds both for maintaining the charities' incomes and for capital projects;

(iv) whatever may be the case in respect of some charities it cannot be said of by any means all charities that they are "partners with the state"; nor are all subject to control of their land transactions: the universities of Oxford, Cambridge and Durham and their respective colleges and halls are not.

7. It has been suggested that to attempt to distinguish between functional land and other land, as the Minister of Land and Natural Resources proposes, might give rise to anomalies, e.g., where functional land had been put to another use, or where the functional use was confined to part only of the land, as where the charity has its offices over shops; or where the use is not clearly functional, as where a charity lets houses to its own staff. If the Cabinet decide, however, that a distinction should be drawn between functional land and permanent endowment land, it should not be impossible to produce workable definitions to cover these categories. No distinction drawn in this field will be wholly free from anomalies.
Political factors

8. It is recognised that an attempt to charge levy on permanent endowment land would subject the Government to strong political pressures. Many Members of Parliament on both sides of the House will be under pressure from small charities in their own constituencies, and the national charities will be able to arouse a good deal of public sympathy if they can represent that socially valuable work is likely to be impeded as a result of their having to pay the levy. If we do not exempt permanent endowment land we shall be involved in controversy on a relatively minor issue which could delay the Bill and perhaps sharpen conflict on more important aspects of our proposals. On the other hand, political pressure will not be all one way. Some of our own supporters would be likely to object in principle to the exemption of permanent endowment land belonging, for example, to public schools. But it would be a new and controversial departure to distinguish between one type of charity and another on the ground either of the charity's purposes or of the amount of land it holds; and we should almost certainly have to exempt all or none.

Conclusion

9. My colleagues are asked, therefore, to decide whether or not permanent endowment land held by charities should be subject to betterment levy.
CABINET

REVIEW OF PUBLIC EXPENDITURE FROM
1965-66 TO 1969-70

BACKGROUND AND SUBMISSIONS

Note by the Secretary of the Cabinet

Attached are copies of memoranda considered by the group of Ministers under the Chairmanship of the Chancellor of the Exchequer which has been reviewing the allocation of public expenditure (see C.C. (65) 33rd Conclusions, Minute 3). They are circulated as supporting documents to the forthcoming report by the group to the Cabinet. The documents are:

A. The Public Expenditure Allocation
   (Memorandum by the Chancellor of the Exchequer)

B. Education Programmes
   (Memorandum by the Secretary of State for Education and Science)

C. Health and Welfare
   (Memorandum by the Minister of Health)

D. Programme for Benefits and Assistance (including Family Allowances)
   (Memorandum by the Minister of Pensions and National Insurance)

E. Police and Prisons
   (Memorandum by the Secretary of State for the Home Department)

F. The Road Programme
   (Memorandum by the Minister of Transport)

G. The Aid Programme
   (Memorandum by the Minister of Overseas Development)

H. Housing
   (Memorandum by the Minister of Housing and Local Government)

(Signed) BURKE TREND

Cabinet Office, S.W. 1.

12th July, 1965
The group of Ministers were set up to consider the conflicting claims of the various public expenditure programmes and to make recommendations to the Cabinet. This memorandum sets out the background for the group's discussions.

2. The Cabinet decided in January, and this has since been announced, that the planning of public sector expenditure should be based on an average annual rate of increase of 4½ per cent. per annum at constant prices from 1964-65 to 1969-70. The Departments have prepared programmes accordingly, within limits laid down by the Cabinet. These have been collated and examined by an interdepartmental committee, whose factual report is now being circulated.

3. The task of this group is to fit these programmes into the total amount of money which is available for them. In doing this, they must make a judgment on the priorities; and their recommendations must be consistent with the Plan as it is now taking shape.

Category A Programmes

4. To make the task manageable, it is proposed to concentrate on the eight main programmes (Category A). These, together with defence, represent about 80 per cent. of total public sector expenditure (central and local government), and probably something approaching 95 per cent. of that expenditure for which it is at present possible to have long-term programmes effectively under Departments' control. The remainder (Category B) can be settled later on.

5. Each of these eight programmes covers all public sector expenditure on its subject (central and local government, current and capital, and the gross out-goings of the National Insurance Funds) for the period to 1969-70, all at 1965 prices. The group need to treat all public sector expenditure together, in order to get a complete statement of the claims of each programme. If they tried to work on the basis of central Government expenditure alone they could not handle such topics as education because much of the expenditure on education is incurred by local authorities. Again, the group must deal with hospital current and capital expenditure together, for the building of new hospitals creates increased requirements for current expenditure; and so on.
6. The programmes are distinguished as "basic" and "additional". The Cabinet laid down the limits of the "basic" programmes, which were broadly intended to represent the continued expansion implied in existing policy. The Ministers were left free to put forward "additional" programmes as they pleased; they have been asked to circulate papers to the group describing and justifying their "additional" programmes, and it will be necessary for the group to discuss each of them with the Minister concerned.

7. The programmes submitted are as follows:

<table>
<thead>
<tr>
<th></th>
<th>£ million at 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964-65 Programmes</td>
</tr>
<tr>
<td>Defence Budget</td>
<td>2,075</td>
</tr>
<tr>
<td>Overseas Aid</td>
<td>181</td>
</tr>
<tr>
<td>Roads</td>
<td>406</td>
</tr>
<tr>
<td>Housing: public capital expenditure</td>
<td>520</td>
</tr>
<tr>
<td>Housing subsidies</td>
<td>153</td>
</tr>
<tr>
<td>Police and prisons</td>
<td>230</td>
</tr>
<tr>
<td>Education</td>
<td>1,459</td>
</tr>
<tr>
<td>Health and welfare</td>
<td>1,238</td>
</tr>
<tr>
<td>Benefits and assistance</td>
<td>2,120</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>8,382</strong></td>
</tr>
</tbody>
</table>

*Equivalent at 1965 prices to the target of £2,000 million at 1964 prices.

8. The "basic" programmes show an increase of £1,858 million; and the "additional" a further £762 million. It will be open to the group, if they wish, to recommend a reduction in some "basic" programmes; but the main task will probably be to recommend how much money shall be allocated to each "additional" programme.

9. The "basic" programmes show a major redistribution of public sector expenditure compared with the programmes which the Government found when they came into office. Defence in 1969-70 was then put at £2,400 million at 1964 prices, and the present planning decision reduces this by £400 million; the previous housing programme has been increased (as a result of the February Cabinet decision to increase local authority approvals in England and Wales to 150,000 houses in 1965) by about £50 million within the "basic" allowance; the "basic" programmes for benefits and assistance include the large increases announced last November (£325 million); the health figures show the removal of the prescription charges (£25 million). These changes already reflect a considerable reshaping.
The Size of the "Kitty"

10. Firstly, how much can be allocated to the "additional" programmes? The starting-point is the increase in total public sector expenditure (Category A and Category B) which would be permissible under the Government's undertaking to keep the increase within 4½ per cent. per annum at constant prices for 1964-65 to 1969-70. This permissible increase, excluding expenditure in Northern Ireland and certain minor statistical adjustments, is £2,435 million.

11. Before the "additional" programmes, there are the following claims upon this £2,435 million increase:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category A &quot;basic&quot;</td>
<td>1,860 (paragraph 8)</td>
</tr>
<tr>
<td>Category B</td>
<td>225 (a)</td>
</tr>
<tr>
<td>Contingency allowance</td>
<td>100-150 (b)</td>
</tr>
</tbody>
</table>

Available for Category A "additional" = £200-250 million

Permissible increase = £2,435 million

(a) Category B in 1964-65 was £2,225 million. This category contains a mixed bag of expenditures. Some will, it is hoped, go down, e.g. the British Railways Board subsidy. Some will go up, e.g. science and technology. Some cannot be predicted at this stage, e.g. the cost of agricultural support, which depends upon the United Kingdom production and upon world prices. The Treasury and the Department of Economic Affairs advise that it is essential to allow for an increase of at least £225 million (or 10 per cent.) in the Category B total by 1969-70.

(b) This must provide both for unforeseen events and for the tendency, very definite in previous expenditure surveys, for the future level of costs to be underestimated. The White Paper on Public Expenditure published in December, 1963, included a contingency allowance of £250 million.

12. Thus, the "kitty" available for the "additional" Category A programmes is £200-250 million plus whatever can be gained by reducing the "basic" programmes. As presented, the "additional" programmes total £760 million; and to fit these into £200-250 million is the measure of the task.

Problems of "Physical Resources"

13. This operation is carried out in terms of expenditure (all at 1965 prices): and it will have to be made consistent with the assumptions in the Plan about the availability of physical resources.
14. The first field in which this could be of importance is construction. The position is being studied in detail. Preliminary conclusions are that, provided maximum use is made of industrial building of houses, the demand (including that implicit in the 4½ per cent. increase in the public sector, i.e. with "additional" programmes not exceeding £200-250 million) could probably be met, but only with some difficulty, particularly in the supply of manpower. This tightness is, however, probably no worse than in other industries and is a reflection of the general pressure on resources throughout the period.

15. Second is the problem of manpower. The preliminary results of the Industrial Inquiry for the Plan suggest that the additional demand for manpower of all types by 1970 will be 900,000, while the expected increase is only 400,000. The requirements set out in these programmes for education, health and public administration are by themselves sufficient to absorb the whole of the increase in supply. This again is a measure of the general pressure on resources. Even more important, however, are the demands made by these services on educated manpower.

16. There are serious questions here of how far the substantial expansions of public services envisaged in the "basic" programmes and even more in the "additional" ones can be regarded as realistic in terms of manpower. The demand in each programme may be reasonable. But when we take all the public services together, many of them are competing with each other and with industry for the same kinds of workers; and the expansion programmes bid up the wages and salaries (and thus the cost) while failing to accomplish their purposes. All this emphasises the need for maximum efficiency in the use of manpower in the public services.

Problems of Timing

17. The group's recommendations will be for the expenditure levels in 1969-70, for the object is to make a framework for the Departments' forward planning. The decisions to be taken and the policy commitments to be announced in 1965 for the development of public services will not generally make their full impact upon expenditure until 1968 or 1969 or even later. They must be based on the best present judgment of what the economy will be able and willing to afford some years ahead; and the year 1969-70 is now taken for this purpose.

18. But expenditure planning is a continuous process. The expenditure limits for 1969-70 to be decided by the Cabinet in July will be examined and adjusted again in a year's time, and limits fixed for 1970-71; and in two years' time for 1971-72, and so on from year to year. These annual adjustments and extensions will take into account:-

(i) the developing prospects for the growth of the economy;

(ii) the expected needs of the private sector and the balance of payments;

(iii) the changing pattern of requirements for the public services.
The room for manoeuvre will never be great at any one time. Once an expenditure policy has been announced it is difficult to modify it, and its costs tend to grow. Nevertheless, as national production grows, an increasing amount of resources will become available for the public sector; and provided that defence can be held steady, and the rates of expansion of the main public services can be kept under effective control, there should be more scope for constructive development in the future.

The greatest difficulty is the absence of room for manoeuvre in 1966 and 1967. This is the period of critical significance for putting the balance of payments right and for building up industrial investment as the foundation for future faster growth. Public expenditure is now increasing fast, and the greater this increase the less is available for private investment, private consumption and the strengthening of the balance of payments. It will clearly be desirable to postpone expenditure as far as possible from these earlier years to the later years of the period; and in particular to consider very carefully the timing of the "additional" programmes which are decided upon, in order to reduce to a minimum the additional expenditure to be incurred before the end of 1967.

Conclusion

If this analysis is accepted, the group should then proceed to allocate the £200-250 million between the "additional" programmes, after making such adjustments to the basic programmes as may be appropriate, and with regard to the timing considerations above.

The Government have undertaken to publish a White Paper on Public Expenditure later in the year, to fill out and perhaps in some respects to make more precise the material about the public sector which will be included in the Plan. It is too early to say precisely what will have to be published; but it will obviously be necessary to demonstrate that the Government's plans are within the 4½ per cent. for 1964-65 to 1969-70; and it will be necessary to show figures for each of these eight main programmes and defence.

The First Secretary is in agreement with this memorandum.

L.J.C.

Treasury Chambers, S.W.1
21st June, 1965
MEMORANDUM BY THE SECRETARY OF STATE FOR EDUCATION AND SCIENCE

The Cabinet has agreed that in assessing priorities for future public expenditure, the greatest weight should be given to proposals that would assist economic growth. Among such proposals education ranks high, for while it may be difficult to establish an exact quantitative relationship the connection between education and economic growth is not in dispute. As the Prime Minister said in Bradford on the 11th June, "the aim of equal opportunity in the nation's schools and establishments of higher education is not merely a question of philosophical equality. It is a matter of national survival for Britain that we fight for the education of every single one of her citizens."

2. During the period 1952-53 to 1962-3, the Gross National Product rose (at constant prices) at an average annual rate of about 2.8 per cent. In the same period, educational expenditure rose by 6.1 per cent, of which about 3.0 per cent was due to increased demand (measured by the numbers of pupils and students) and about 3.0 per cent to improvement in the standard of the service. There was an increase of some 4.2 per cent per annum in the ratio of educational expenditure to G.N.P.

3. The Basic programme for education for the five years 1964-65 to 1969-70 shows a very different picture, assuming a 2.8 per cent growth in G.N.P. The 30 per cent "Basic" increase in educational expenditure gives an annual increase of 5.4 per cent. But of this 3.3 per cent is accounted for by increased demand, leaving only 2 per cent for improvement in standards - a markedly slower rate of improvement than in the last ten years. The ratio with G.N.P. would improve by only 1.8 per cent per annum.

4. If educational expenditure rises by the 4.2 per cent involved in the Basic and Additional Programmes together, the ratio with G.N.P. would still rise by only 3.8 per cent per annum compared with the 4.2 per cent over the earlier ten-year period. At the end of the period education would take only 5.9 per cent of G.N.P., a proportion which looks like being at least equalled and probably exceeded in other western countries. This would not give any large improvements in standards since the whole situation is dominated by the increase in the number of children of school age. In 1964, there were 7 million children in school in England and Wales; by 1974 there will be 9 million.

Basic Programme

5. I turn now to the Basic Programme for England and Wales (the Scottish position is dealt with in paragraphs 14 - 16 below). The details are given in Table 26 and paragraphs 69 - 75 of the P.E.S.C. Report. I must emphasise that the implementation of this programme and nothing more would mean a virtual standstill in educational policy; almost all the increase would be absorbed by additional numbers.
6. The three most important elements are

(a) the supply of teachers: the programme assumes the provision of the 110,000 places in colleges of education approved by the Government in January. But this will mean waiting until about 1976 before we can reduce class sizes to the maxima prescribed twenty years ago (i.e. 40 for primary and 30 for secondary classes), and until 1983 before we can carry out the pledge in our Election Manifesto to reduce class sizes to 30 and 30. Moreover, in the primary schools, no significant improvement will begin to show until about 1974.

(b) School building: the need for new school places is rising sharply - partly because of the continuing growth in the birth rate, partly as a direct result of new housing. In addition we are committed to the raising of the school leaving age in 1971, and we have published our predecessors' survey of school buildings showing that at present rates it will take 30 - 40 years to eliminate substandard schools. The Basic Programme alone will not enable us to meet all these needs; it would thus mean a positive going back on current improvement policies and would not enable me to say that substandard schools would ever be eliminated. The Government would in fact be faced with the dilemma of either refusing places to children entitled to them, or putting back the raising of the leaving age, or drastically curtailing even the meagre improvement programme for which we criticised the previous Administration.

(c) Higher Education: the Basic Programme provides for the number of places recommended by Bobbins and accepted by us, but it means a complete standstill on development otherwise.

7. My colleagues will realise therefore that the Basic Programme provides no opportunity for progress beyond existing policies and in the case of capital expenditure would not permit even that.

Additional Programmes

8. The same three heads of teachers, building and higher education account for the greater part of the additional programmes which I am requesting. The present target of 110,000 teacher training places would be brought forward to 1970; this acceleration would not only advance by about two years (i.e. to 1976) the date when we might expect an end to oversize classes as at present defined; more important, the schools would begin to feel the relief some three years earlier than under the basic programme.

9. On school building I must reiterate that unless the full amount of the proposed capital investment is agreed, the first programmes to be announced by this Government will achieve even less improvement than was done by our predecessors. (Indeed, further work since the figures were prepared suggests that to be sure of maintaining the improvement rate we need an extra £15 million in the additional programme).

10. In higher education it is now clear that the number of qualified students wanting places will be higher than Bobbins forecast; the additional programme provides almost all of them in colleges of further education where they are cheapest. Without this additional provision we should have to sacrifice the Robbins principle (accepted by both us and the Conservatives) that all who want and are qualified for higher education should be given their opportunity. Even with the additional programme university entry will become more and more competitive, for the only provision we propose here is some expansion of the medical schools and the first stage of a new Technological University in the North-East. Unless we do this much we shall again be seen to be doing even less than our predecessors.
11. Turning to current expenditure it will be appreciated from what I have already said, and from the Report itself, that the Basic Programme contains nothing for new developments. It provides solely for the application of existing policies to an ever growing number of pupils and students.

12. But there are of course a number of most desirable developments that I should like to go ahead with. Indeed, if I am unable to do so it will be an admission that we cannot do better than the previous Government. From a very large field I have selected a number of matters on which we should make at any rate some advance. They are summarised in paragraph 83 of the Report and represent a modest programme of expansion for the coming five years. But there are, as my colleagues will realise, some notable omissions; the expansion of nursery education for which there is a growing demand and which is likely to figure in the recommendations of the Plowden Council is not provided for; nor is there anything additional for comprehensive school reorganisation - nor for immigrant children.

13. The figures for Milk and Meals in table 26 of the Report reflect simply increased numbers and present policies. But I have in hand investigations which will, I hope, enable us to make some reductions in Exchequer expenditure and so enable us to meet a little more easily the growing need for expenditure on education.

Scotland

14. Details of the size and composition of the basic programme for Scotland are given in table 2b and paragraphs 69 - 75 of the PESC Report.

15. On the school building side the Secretary of State for Scotland faces increasing demands of much the same kind as those in England and Wales. The investment proposed in the basic programme is essential to meet the needs arising from growing and shifting population, to provide the additional accommodation required for raising the school leaving age and to continue a limited amount of replacement of the worst slum schools. The additional programme (Qm. a year) is intended to cover two very important items -

(a) the provision of school places required consequent upon the further projected increase in the rate of housebuilding; and

(b) the provision of residential hostels for pupils who cannot live at home following the continued re-organisation of secondary school provision in the highlands and islands.

16. The additional programmes also contain provision for places in Colleges of Education which will be required to accommodate the numbers expected to come forward and some residential provision for student teachers-in-training of which the Scottish Colleges are extremely short.

DEPARTMENT OF EDUCATION AND SCIENCE, W.1.

C.A.R.C.

21st June, 1965
HEALTH AND WELFARE

Memorandum by the Minister of Health

This paper has been prepared in consultation with officials of the Scottish Office, and applies to Great Britain.

2. The basic programmes (at 21.9 per cent) have been contained within the target figure of 22½ per cent growth by 1969/70 even though provision has had to be made in the period for the cost of abolishing prescription charges which, when the estimates were made, were thought would amount to about £34 million by the end of the period, or about 2½ per cent. This decision to abolish charges was taken following a policy decision of the Party when in opposition and the fact that it comes out of the 22½ per cent means that our basic programme barely provides for the maintenance of the policies which previously the Party criticised as totally inadequate. The proportion of our resources currently devoted both to capital and to running costs of health service is, on the latest information available, lower than in any other important country for which we have figures.

3. Hospitals - Current Expenditure

The basic programme covers growth at the rate of 2½ per cent per annum in England and Wales and 3 per cent (3½ per cent in 1966/67) per annum in Scotland. The additional programme - details in the attached note - looks for an increase in England and Wales to 3 per cent in 1966/67, rising to 3½ per cent by 1969/70. For Scotland an extra ½ per cent is sought for 1967/68 onwards.

The rate of growth under the basic programme is wholly inadequate, even for carrying out existing policies. For 1966/67 it is already clear that in England and Wales the net additional cost of running new capital projects will take about 1½ per cent out of the 2½ per cent - 2½ per cent out of 3½ per cent in Scotland. These costs must be a first charge on the development monies - the alternative of building hospitals and not using them is unthinkable - but there are other costs to be met also. More pressure is being put year by year on the diagnostic services, e.g. the laboratory services, and staffing generally needs to be improved. The hospitals need extra funds to meet the costs which inescapably arise from advances in medicine such as exfoliative cytology, renal dialysis (a life-saving measure), organ transplantation, and to provide for the new and
costly drugs which must be used first in the hospital service. So irresistible is the pressure to improve medical services that hospitals have tended to devote insufficient money to maintaining buildings and replacing equipment, and there is still a backlog of many millions. Moreover, the more inadequate our capital programme, the more we must spend (uneconomically) on making do and mending. A minimum addition of 1½ per cent is needed for all these things in 1966/67, making a total of 3 per cent for the year, and this must grow to 3½ per cent by 1969/70, partly because of the increasing capital programme. Similar considerations apply to the Scottish bid for 1967/68 onwards. This would cost £3 million in 1966/67 and £17.2 million for Great Britain by 1969/70 (including £1.2 million for Scotland).

4. Hospital - Capital Expenditure

The purpose of the hospital capital programme is to proceed as fast as possible in replacing the greater part of the nation's hospitals. Many are in obsolete buildings, about 4½ per cent having been erected before 1891 and 21 per cent before 1861. These, and many others, are unsuitable in design for hospital work to modern standards.

In Cmnd. 1604 our predecessors assumed that £500 million would be spent in the ten years to 1970/71 and in its second revision this was raised to £750 million for the ten years to 1973/74. This was intended only as a start in the programme of modernisation. The programme specified, amongst other things, the start by 1970/71 of 90 new hospitals and the virtual reconstruction of 134 other hospitals. It soon became apparent that the individual hospital schemes had been imprecisely defined and costed and deferment of the programme on a considerable scale has been taking place steadily. When in opposition we severely but realistically criticised the inadequacy of our predecessors' programme.

A further review of the programme is now being undertaken by hospital authorities in England and Wales to bring more realism into it. But it is already clear that the review will demonstrate with the resources at present allocated that less work can be done than was envisaged by our predecessors. Once again the review will produce the appearance of further cuts. Furthermore, the population is growing faster than was estimated when Cmnd. 1604 was written with the result that we shall need 40,000 more beds by 1981 than Cmnd. 1604 planned for in 1975. This means that further work to the value of about £300 million will need to be started by 1975/76 to provide for the increased population, quite apart from the extra resources needed to provide the amount of modernisation that the country had originally been led to believe might be achieved by 1975.
The basic programme is that agreed for planning purposes between my predecessors and the Treasury. It is entirely inadequate. The additional programme of £5 million, £6 million, £8 million and £13 million, proposed for 1966/67, 1967/68, 1968/69 and 1969/70 respectively, in no way represents a judgement of all that needs to be done to modernise the hospital service. It is not an attempt to add specific schemes to a programme which is making a reasonable contribution to the problem; it is all I have felt I ought to ask for in the present economic situation. It is doubtful whether at present we are making any progress in overtaking the backlog of work which needs to be done and there is undoubtedly waste in having to patch up old buildings which we know ought to be pulled down. The additional programme would enable us to plan more sensibly, and make a noticeable impact on our work. In particular, we need to start at £5 million in 1966/67 if we are to keep the hospital Boards' planning machine, so laboriously built up, from running down.

In Scotland, our predecessors' original programme to 1970/71 was £70 million raised to £105 million for 1964/65 to 1973/74. They acknowledged that this increase was insufficient to enable the programme originally listed to be maintained: and apart from specific major deferrals and cancellations which they announced only the lengthening of the span of the programme without the addition of schemes has enabled the restricted programme to remain in reasonable balance.

This programme, when carried to completion, will make only a very limited contribution to the modernisation of the Scottish hospital service replacing only about one-sixth of the existing beds and leaving unfilled conspicuous gaps in geriatric and maternity services.

The basic programme is a part of the £105 million programme with minor adjustments.

The additional programme of £0.4 million, £0.5 million, £1.8 million and £2.8 million proposed for the next four years is designed to enable a small part of the deficiency in geriatric and maternity beds to be made up and to permit a start to be made to one of three district general hospitals which were deferred at the time of our predecessors' last review of their programme.
5. Executive Councils Services

Nearly half of the £74 million increase in the basic programme results from the abolition of prescription charges which has already taken place. About a further quarter is for the inevitable rise in the drug bill, mainly greater use of more effective and sophisticated drugs. For the rest the basic programme provides for the continuation of steady progress of the dental service, for maintenance of the Supplementary Ophthalmic Service at present standards and for maintenance of the present general practitioner force with very little in the way of development, apart from schemes already accepted by the Government to increase the use of ancillary helpers and promote improvements in practice premises. The sums requested in the additional programme are:

**General Medical Practitioners**

The whole future of the Service must depend on money to finance urgently needed improvements notably in premises, ancillary staff and equipment, which must have a first claim on resources, and which will I hope stem from a new agreement arising from current negotiations with the profession. The basic programme includes some provision for more ancillary staff but otherwise makes no allowance for the increased rate of capital and operating expenditure (quite apart from the net pay of the practitioners) which is necessary for a viable service.

The forecasts are of necessity conjectural in the absence of detailed knowledge of needs and of the pace at which they will be met. The provision of purpose-designed modern buildings where ever they are needed could well cost some £50 million or more in total. But doctors will in most cases be raising the capital for this themselves with the help of the proposed new Finance Corporation. In view of this and in the absence of any plan for a major programme of Government or local authority building, the forecasts allow only for a small part of the total (an additional £5 million a year by 1969/70) to be met from public sources, such as might result from some increase in the volume of health centre and similar provision and the schemes already agreed for improvement grants.

The forecast also allows for an additional £3 million for running costs (£1 million for premises and equipment and £2 million for ancillary staff.) A scheme to encourage doctors to employ more such staff and thus enable scarce medical man-power to be more effectively used has already been agreed. The pace of this development also can only be conjectured; an increase of about 50 per cent is covered by the basic programme and the additional £2 million would bring the number employed up to about one whole-timer per doctor at an average rate of pay of £500 a year - not a costly way of reducing the calls on the time of expensively trained doctors in a period of great shortage.
A corresponding provision will also be required for these services in Scotland.

Finally there is increasing pressure to permit repayment to serving elderly doctors of the compensation due to them for loss of the right to sell the goodwill of their practices. The present rule that payment may only be made on retirement or death, except in cases of hardship, has for years been the source of growing ill-will among the doctors and repayment at age seventy, dropping in yearly stages to sixty-five (by 1971/72) would remove some of the sense of injustice which they feel and with which the Review Body recently expressed sympathy. The forecast covers repayment on this basis.

**Dentists**

Some small and intrinsically desirable consequential on improvements in doctors' practice conditions will be difficult to avoid, e.g. selective encouragement to better practice premises and stimulation of the service in poorly covered areas.

**Ophthalmic Services**

The present National Health Service range of spectacle frames is outmoded and does not nearly match current demands (for every three people who take a National Health Service frame, five buy a private one). It is proposed to include two or three new National Health Service frames of modern but established pattern.

6. **Transport for disabled**

Powered transport is provided for certain disabled people with limited walking ability. War pensioners in this category may choose between a small motor car or a single-seater invalid tricycle, National Health Service patients may receive only an invalid tricycle. Pressure has been mounting over the years for the National Health Service patient to be given the same choice as the war pensioner. The increased cost of this concession might be about £4.0 million over the first eight years.

7. **Hearing Aids**

The National Health Service will be exposed to increasingly heavy criticism if it does not replace the present type of aid by head-worn aids now only available commercially and at high prices. Head-worn aids, though not technically suitable for all patients, could be used by the great majority. Advantages are convenience and comfort and, for some people (e.g. children and workers of various types) the elimination of the cord would be a major benefit.

8. **Measles Vaccination**

Trials are nearing conclusion and the experts are expected to recommend vaccination of children against measles. On the assumption that this policy would be adopted we would try to cover children below age seven before an expected epidemic in autumn 1966 and thereafter the annual births.
9. **Health Education**

The Cohen Committee recommended in 1964 substantially increased expenditure as a means of preventing ill-health and thus reducing demands for health services.

10. **Local Health and Welfare Services**

Local authorities in England and Wales have budgeted in their ten-year plans for substantial and very necessary development of the community care services, and the basic programme no more than reflects the steady growth of recent years, and can be generally seen as a fair measure of what is likely to be physically and financially practicable for authorities.

Some additional special developments are, however, both likely and necessary. Powers to provide general welfare services for the elderly are essential, and this may lead to a further expansion of domiciliary services. It is socially better, and should be cheaper, to keep old people in their own homes as long as possible than to provide more hospital beds in geriatric wards. Some increase in home help services through moderation of charges for it is also urgently needed. Family planning is another service for which public pressure is very properly increasing. The additional cost of these (and other possible developments in policy) is uncertain but should not exceed the estimates shown.

Though there is no ten-year plan as such in Scotland, there is broadly the same need for development and expansion of services, especially in the mental health field.

11. **General**

The additional programmes mentioned above would cost about £24.9 million in 1966/67 and £58.4 million in 1969/70. They do not include provision for the abolition of charges for the dental and ophthalmic services on which there is an election pledge. The main arguments for abolition, which might cost £26.6 million (£29.9 million if the range of spectacle frames were increased), involve political considerations rather than health matters and, in my view, if we proceed with these measures the cost should not be reckoned against the health and welfare share of the funds available for additional programmes. The 'health' developments totalling £58.4 million and the cost of abolishing charges at £29.9 million make up the grand total of £88.3 million, for Great Britain which appears in the P.E.S.C. Report.

K.R.

Ministry of Health, S.E.1.

18th June, 1965
## ADDITIONAL PROGRAMME

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### Charges

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PROGRAME OF BENEFITS AND ASSISTANCE (INCLUDING FAMILY ALLOWANCES)

Memorandum by the Minister of Pensions and National Insurance

The Social Security section of our Manifesto began with the pledge that:
"Existing National Insurance benefits will be raised and thereafter linked to average earnings so that as earnings rise so too will benefits."

My basic programme reflects this by providing for the rates of insurance benefits, war pensions and national assistance which we introduced this year to go up year by year in line with the assumed rise in real earnings per head. The precise timing and amounts of particular increases we cannot expect to be able to decide long in advance; but we could hardly contemplate making an assumption which left the standard rate of pension and other benefits as a lower (or at any rate a significantly lower) proportion of average earnings in 1969-70 than they are today, particularly as in recent years they have been rising faster than earnings. The only other item in my basic programme is wage-related unemployment benefit and this I discuss later on.

2. In my additional programme, Income Guarantee predominates. In our Manifesto this was the only social security project which we explicitly excepted from the proviso that the speed at which better benefits could be introduced must depend upon the rate at which the economy advanced. Both as a Party and as a Government, we are committed to the hilt to the early introduction of an Income Guarantee scheme. It is only the prospect of this which has enabled us to resist the moves by Mr. Airey Neave, M.P., and others to provide pensions out of the National Insurance Fund for old people who have not qualified by their contributions. But, quite apart from our pledges, this is not a matter which any of us would wish to defer longer than the needs of administrative preparation dictate. For we have to rely on Income Guarantee to help those old people who, for whatever reason - perhaps false pride - are trying to struggle on with an income appreciably below national assistance standards.

3. I am hurrying on the planning of the Income Guarantee in discussion with my colleagues on the Social Services Committee. I hope to have everything ready for a start by the autumn of 1966. But, until I begin to get information at the end of July from my enquiry into the circumstances of retirement pensioners, I shall not be able to make a reliable estimate of cost. On my present information a scheme set a few shillings a week above national assistance levels would cost the Exchequer something like £100 million a year net, taking into account the consequent savings from the national assistance expenditure provided for in my basic programme.
4. However good our progress in the preparation of plans for completely recasting the long-term benefits of the national insurance scheme, we cannot expect that there will be much impact on expenditure by 1969-70, the end of the period with which we are immediately concerned. But, in the meantime, strong pressures are likely to develop for making some further improvement in the provision for widowhood, particularly as, despite what was said in the Manifesto, widows below pension age will not, initially at any rate, be brought within the scope of Income Guarantee. I have suggested £20 million a year as the possible cost of an interim reform of widow's benefits. This does not reflect specific proposals, but it would, for example, cost about £10 million a year to reduce the qualifying age for widow's pension from 50 to 45 and roughly the same amount would be involved in providing a temporary benefit related to the late husband's earnings for the first six months of widowhood, which the previous administration proposed in conjunction with wage-related unemployment and sickness benefit.

5. I now come to wage-related unemployment and sickness benefit. The first of these was assigned to my basic programme primarily on economic grounds. On social grounds the two go together. This is not only because the needs of the sick are at least as urgent as those of the unemployed but also because the introduction of wage-related unemployment benefit in isolation would throw us back to the pre-1948 situation in which men unfit to do so held themselves out as available for employment so as to secure the higher rate of benefit. On political grounds also it would be hard to justify exclusion of the sick, especially as the previous administration undertook to bring them in along with the unemployed, and the T.U.C. have always been sternly opposed to the introduction of wage-related unemployment benefit without wage-related sickness benefit.

6. We must also face up to the other implications of a move to wage relation in this sector. The most difficult derives from the fact that the dependency allowances of the present insurance scheme already make some low wage-earners with large families as well off on benefit as in work. A wage-related scheme must either give smaller dependency allowances than at present or be on so modest a scale as to leave the total benefit of the single man far short of his earnings. I have analysed this situation in detail in a memorandum (S.S.(C.B.)(65)4) for the Social Services Sub-Committee on Social Security Cash Benefits and have outlined a variety of schemes which would provide wage-related unemployment and sickness benefit of six months duration, within very roughly the same order of cost (about £50 million a year) as has been allowed for these items in my basic and additional programmes. But in Parliamentary discussion of any of these schemes the dilemma to which I have referred above would be bound to come out starkly and would lead to developing pressure for family allowances to be increased so as to make possible a reduction in national insurance allowances for children. If this were done, the family would receive all the time something they now get only when the father is on benefit and this would leave room for a bigger graduated element without bringing the family man's income on benefit too close to his income when at work. But the cost would be substantial.
7. It is not only from the introduction of wage-related unemployment and sickness benefit that pressures for better family allowances will come. In our Manifesto we referred to "re-organised family allowances, graduated according to the age of the child, with a particularly steep rise for those remaining at school after the statutory leaving age". The Manifesto also said that re-organised family allowances would replace school maintenance grants. Apart from radical re-organisation of the system of allowances for children, bringing in not only family allowances but also income tax reliefs, it will be very expensive to carry out this commitment in full. If, for example, in order to enable the allowances to replace the school maintenance grants, allowances were paid for all first children in families and a very small element of graduation according to age were introduced, the cost might be of the order of £200 million a year. Even if first children were excluded, except for those over school-leaving age, the cost could hardly be less than about £100 million a year. By contrast, I understand that the cost of the existing school maintenance grants is no more than about £1 million a year.

8. I recognise that the cost of our proposals about family allowances made in the Manifesto makes it quite unrealistic even to contemplate carrying them through at the present time. I am, however, particularly worried about the situation in which some men are having to keep their families at a lower level of income than the ordinary national assistance scales would provide. This comes to the surface when such men fall out of work and a special "wage stop" has to be imposed on their assistance payments to avoid giving them a higher income than when working. This is more particularly a problem affecting families with relatively low incomes and a number of children. I should like to have it examined to see whether it is possible to find some selective way of dealing with it, or at least reducing it, at a reasonable cost. If we can find such a way it would, I think, be an important reform which we ought to carry through as soon as we can. Because of this, I have allowed an amount of £25 million a year in my additional programme for improvements in family allowances. Until I have studied the matter further, I cannot say what would be the right method or the amount required.

9. Finally, I have included a contingency allowance representing an extra £10 million a year by 1969-70. In the nature of things I cannot say whether this will prove to be the right amount. But urgent problems of a limited nature are always presenting themselves and we could not possibly preclude ourselves from introducing timely adjustments to ease the pressure here and there as circumstances may demand. The sort of thing I have in mind is the improvement needed, at a cost of about £1 million a year, in the benefits for men on workmen's compensation, which has recently been before the Cabinet. Another example may well be provided when we have the report of Lord HcCorquodale's Committee who are at present examining certain problems arising in connection with the assessment of disablement under the war pensions and industrial injuries schemes.

10. In the light of what I have said, I am sure my colleagues will agree that my basic and additional programmes allow for no more than modest progress towards the reconstruction of social security to which we are pledged.

W. H.

18th June, 1965.
POLICE AND PRISONS

Memorandum by the Secretary of State for the Home Department

Police

Basic Programme

1. Within the target growth set for the police and prison block, expenditure on police is expected to increase from £199.2 to £233.9m. (17.42 per cent) over the period under review. A further £6.7m. is required in 1969-70 for the implementation of existing policies and is shown as an additional programme (see paragraph 2 below).

2. The present strength of the police service in England and Wales is a little over 81,000. Police establishments (which have in the past not been increased in areas where the level of recruitment did not permit the existing establishment to be filled) are at present under review, so as to obtain a true picture of deficiencies. This review should be completed by the end of the year. In the meantime, the best estimate is that on the basis of existing conditions of service at least 12,000 more policemen are required in England and Wales, together with at least another 1,000 women. The standard working week for the police is 42 hours, but overtime has to be worked in many forces and in the Metropolitan area the regular working week is still 40 hours. If a 40-hour working week were effectively adopted (and this must be considered a probability as the result of normal processes of negotiation) there would be an additional shortfall of between 4,000 and 5,000 men. The figure of 94,000 uniformed police envisaged in 1969-70 does not therefore represent the full requirement but rather the extent to which it is thought that progress could be made towards the full requirement during the next five years. Even so, the prospective cost of providing this regular strength and ancillary civilian staff in 1969-70 is £6.7m. more than the target growth for the police and prison block allows, and this sum has therefore had to be shown as an additional programme although needed in fact to implement existing policies.

3. The target growth was awarded in the light of the figures included in the 1964 Public Expenditure Survey. Since last year's estimate was made I have been paying special attention to police manpower problems, in accordance with the Government's intention, announced in The Queen's Speech, to build up the strength of the police, and it is apparent that the rate at which police strength, together with ancillary civilian staff and traffic wardens, could be built up was underestimated (by some £3.4m. in the case of the latter two categories) and that insufficient provision was made (to the extent of some £1.6m.) for the provision by provincial police authorities of houses for the police in lieu of rent allowances. The remainder (£1.7m.)
is due to a modest re-assessment of the requirements for operational buildings and to a miscellany of minor increases.

4. If the additional £6.7m. were not available restrictions on police recruitment, outside the special areas of persistent low strength where it is proposed to pay additional manning-up allowances, would have to be considered, beginning not later than 1967-68 and designed to confine the total strength of uniformed police in 1969-70 to, say, 90,000 instead of the 94,000 envisaged. Police recruitment has never been restricted since the 1929-31 financial crisis, and public confidence would be seriously shaken if steps were to be taken to restrict recruitment at a level below the establishments officially approved for each area after careful scrutiny of its needs by H.M. Inspectors of Constabulary. It is relevant that in England and Wales the number of indictable offences known to the police in 1964 was, for the first time, more than one million - over 9 per cent more than the 1963 figures which in turn was 9 per cent more than the 1962 figure. The number of crimes of violence was 17 per cent higher than in 1963 and there was a 23 per cent increase in robberies. The percentage of crimes detected fell from 45 in 1963 to 39 in 1964. At the same time the problems of regulating the constantly increasing volume of road traffic and enforcing the traffic laws are graver than they have ever been, and it is generally accepted that an increase in police manpower on the roads is essential. The Minister of Transport would, I know, agree.

5. It therefore seems essential to continue vigorously to build up police strength, while at the same time enabling a greater proportion of the service to be employed on duties which only they can undertake by the recruitment of more ancillary civilians and traffic wardens.

6. The position in Scotland is essentially similar (provision is made for an increase in uniformed strengths from some 10,400 to some 11,300) except that it has been possible to accommodate this increase within the target growth because the existing relationship between strengths and requirements is more favourable in Scotland than in England and Wales.

Police

Additional Programme

(1) Lengthening the Courses at Police Training Centres

7. Provision is made for additional expenditure of £1m. during the period (£0.2m. in 1969-70) of which one half would be capital expenditure and one half would be current expenditure mainly on staff.
8. Except for the Metropolitan Police who have their own training school, arrangements for training recruits to the Police Service in England and Wales are made by the Home Office at a number of district police training centres. At present there is a basic course of 13 weeks followed, during the first two years of service, by supplementary courses of two weeks each. It has for some time been apparent that with the increasing complexities of police work, more time should be devoted to this training during the probationary period and that an additional four or five weeks are required.

(ii) Residential Centres for Cadet Training

9. Provision is made for additional expenditure of £5.0m. during the period (£2.0m. in 1969-70) to establish four centres, each for about 400 cadets, to improve the training arrangements for the police cadets of certain forces outside London.

10. The employment of police cadets for two or three years before they are old enough to be taken into the regular service is encouraged by the Home Office because experience has shown that the system attracts into the police service, school leavers who would otherwise establish themselves in other careers, that a high percentage join as constables and that wastage, during the early years of service, is in their case much less than amongst recruits with no previous experience. Local training arrangements have not hitherto been co-ordinated and in some of the smaller forces have been unsystematic and rudimentary. A working party of officials has recommended that where forces have few cadets some measure of residential training would be desirable. Residential training has been given with good results in the Metropolitan Police for some years. Outside London the larger forces have made reasonably satisfactory individual arrangements but the smaller forces could not efficiently or economically provide their own residential establishments. It is mainly with a view to assisting the smaller forces (from whom, as with recruit training proper, half the cost would be recovered) that this additional expenditure is proposed.
(iii) Computer for Criminal Records

11. Provision is made for expenditure of £2.5m. to be incurred in each of the years 1968-69 and 1969-70 on the provision of a computer to provide a national criminal records service.

12. There are at present a criminal records office at New Scotland Yard, to which information about criminals and serious crime is fed by all police forces in the United Kingdom, and a number of smaller regional criminal records offices; in addition, all police forces maintain their own local criminal records.

13. An investigation of the application of automatic data processing to Police Criminal Records and Indexes is being made by Home Office and police experts. It appears clear, from consideration already given to the problem that (a) computerisation would be feasible; (b) a more efficient and comprehensive service would be provided; and (c) in order to obtain the maximum advantage from computer installations already available on the market, it is desirable to plan for a national computer system serving the police forces of England and Wales, and possibly Scotland. It may be that a central installation, possibly with satellite computers in the different police districts, will present the best solution. The installation, which would have to provide for 24-hour real-time working, would inevitably be expensive but the operational benefits would be considerable.

14. It may be that an installation of the kind envisaged would also serve the purpose of mechanising the Home Office records of aliens and commonwealth immigrants, since this presents many technical similarities to the application of A.D.P. to criminal records. The police aspects would, however, be the larger part of the project.

15. A number of individual police authorities are already pursuing the possibility of computerisation of criminal records and cannot in principle be discouraged in the absence of a national scheme. A national computer system is preferable because uncontrolled development of separate police computer systems in different parts of the country, either by Police Authorities on their own, or in collaboration with other Police Authorities, or by Police Authorities using computers purchased for other purposes by County Councils and County Borough Councils, would lead in a short time to a series of different kinds of computers and approaches many of which would be incompatible. The development of separate systems would also be more costly than a national scheme.

Prisons

Basic Programme

16. Expenditure is expected to increase from £31.5m. to £37.1m. (18.53%) over the period under review.
17. There are two main elements accounting for this increase. Although it is assumed that the Prison/Borstal population will remain constant, capital expenditure on building programmes is necessary to eliminate three-in-cell sleeping and, generally, to reduce overcrowding and, in time, to replace outdated accommodation. It will also enable about 1,250 new places to be provided for young offenders in detention and remand centres. Also the scale of provision of workshops is still inadequate and all prisoners cannot be fully and usefully employed. Unless a substantial building programme is undertaken implementation of the Government's plans for the introduction of more enlightened and modern methods of the treatment of offenders will be greatly prejudiced.

18. The second main element of growth is that by 1969-70 prison staffs should be increased by about 3,400 mainly for the new establishments for which the building programmes provide, but also to implement improved conditions of service of prison officers which have already been agreed.

Prisons

Additional Programmes

19. Provision is made for the following expenditure to be incurred on a scheme to enable prisoners throughout Great Britain to be paid wages at industrial rates:--

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About 200 prisoners live in prison hostels, go out to work for private employers and receive normal wages, out of which they pay their expenses, including board and lodging, maintain their families and are usually able to save a sum of money to help them on discharge. The great majority of prisoners work "inside" and receive in return for their work small sums ranging from 3/6d. to about 11/6d. weekly. This is little more than pocket-money for spending in the prison canteens. In the earnings paid to "inside" prisoners this country has fallen behind many other countries, such as the United States and Sweden, and the Advisory Council on the Employment of Prisoners has recommended substantial increases.

20. The prison hostel scheme is a valuable part of the penal system and is being expanded as quickly as possible. Among other things, it encourages prisoners in making provision for themselves and their families by normal, honest work. But within the foreseeable future it will be necessary to employ most prisoners for most of their sentences in prison industries and other forms of employment within prisons, and it is desired to extend part of the benefits of the hostel scheme to these prisoners by paying at least some of them amounts which are more commensurate with the value of their work than the mere pocket-money which they at present receive. Apart from any question of equity it is thought that this would make a real contribution to the constructive treatment and training of prisoners and their preparation for release.

21. Ways and means of doing this are at present being considered and all prison industries are being costed to ascertain what additional payments to prisoners would be covered by the profits made by the industries. Until this examination has been completed and firm proposals are available the forecast expenditure as shown...
above can be no more than conjectural. It assumes a modest beginning but an expansion by 1969-70 amounting to full wages for most prisoners.

22. The figure of £6.6m. for that year has been calculated by estimating the additional cost of average industrial wages and subtracting amounts representing the contributions the prisoners would make to their board and lodging and to the maintenance of their families, who would thus cease to need national assistance. It is therefore the maximum conceivable cost on present day prices and with the present prison population. The actual cost may be much less according, for example, to the number of prisoners in receipt of higher pay; the number for whom work can be found with private employers; whether and to what extent amounts falling short of full wages are paid; the existing profitability of prison industries, as established by the costing exercises, and how far this can be improved.

F.S.

Home Office, S.W.1.

24th June, 1965
THE ROAD PROGRAMME

Memorandum by the Minister of Transport

1. The Road Programme is a five-year rolling programme of Exchequer expenditure on new construction and major improvement of major roads i.e. motorways, trunk roads and grants to classified (mainly urban) roads. This last item is complemented by the contribution (on average 30%) of local authorities towards the cost of classified roads.

2. The previous Government in 1964 approved and announced a road programme for the five years 1965/6 to 1969/70 which involved Exchequer expenditure rising as follows:

(i) in the case of England and Wales from £114.5m. in the first year to £223m. in the final year (making a total of £917m. over the five years);

(ii) in the case of Scotland from £21.9m. to £28.5m. (totalling £122.6m.).

It is this same programme which is now at issue, modified only to take account of price changes assessed since last year.

3. Most public expenditure programmes covered by the 1964 P.E.S.C. Survey were on the basis of prices as calculated at that time and they have been brought up to date by one year in the current survey. But the road programme approved in 1964 was on the basis of 1962 cost levels i.e. on the basis of prices extracted from 1962 road contracts which at that time were the latest available figures. Since then data on prices have become available from a detailed analysis of 1964 road contracts. Thus, it is necessary to take account of price changes over two years and not merely over a single year.

4. This analysis shows that road construction prices rose on average by 8½% over these two years, while the cost of land for roads has been assessed by the Valuation Office as having risen between 22% and 32% according to area (rural or urban). The full effects of these cost increases are delayed; in the last year of the current programme they amount to a cost increase of roughly 10%.

5. These figures have been examined by an inter-departmental working party of statisticians who are satisfied that they are the best possible indication of the increase in the cost of road contracts let in 1964 over those let in 1962. A general study of the trend of road construction prices will, it is hoped, be made by the recently appointed Economic Development Committee for the Civil Engineering Industry.

6. The road programme figures approved by the previous Government have been re-appraised by the Ministry of Transport against progress in the preparation of schemes in the programme and re-costed to take...
account of price changes. But in the earlier years of the period it is estimated that some small part of these scaled-up figures will be underspent because it is too late to adjust the rate of physical progress of the work, and a deduction has been made on this account. Thus, the basic programme figures for England and Wales are made up as follows:-

Existing road programme up to 1969-70  
Plus price increases  
Less underspending in the earlier years (1965-68)

This same approach holds good generally for Scotland also.

7. The Ministry of Transport, the Welsh Office and the Scottish Development Department have proposed that the underspendings in the earlier years should be made good in the later years and they have entered these amounts as "additional programmes" for the current P.B.S.C. Survey.

8. Thus, for the five-year period up to 1969-70 there are three alternative programmes between which a decision is required:

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<tr>
<th>Year</th>
<th>Column 1</th>
<th>Column 2</th>
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<tr>
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<td>£m.</td>
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<td>1295.7</td>
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The implications of these three alternatives are as follows:-

(a) confirmation of Column 1 would mean a reduction in real terms i.e. in terms of the amount of new road construction, as compared with the road programme announced by the previous Government up to 1969-70;

(b) the programme in Column 2 would maintain the real value of the announced programme except for the underspendings in the earlier years;

(c) Column 3 would maintain the real value of the announced programme over the five years taken together but would involve an increase in work in the later years to compensate for underspendings in the earlier years.

9. The implications of these three alternatives are as follows:-

10. The main considerations seem to be these:-

(i) this is no new or increased programme. That is at issue is the maintenance in real terms of a programme already announced by the previous Government and on which action by both central and local government is already in hand;

(ii) it is a modest programme which the Departments concerned have already assessed and agreed as to the strength of the case for it;

(iii) it is a programme which will contribute significantly to a basic infrastructure of the country's economy and help its expansion. The motorways and improved trunk roads are directed at the important industrial and commercial traffics between towns (including ports).
most of which is over relatively short distances. These roads are also of key importance to regional development, both within regions and between them. Another important feature of the programme is the provision for roads in new and expanded towns. Economic growth within our existing towns is increasingly geared to delivery by road, and the construction of improved road networks, though far from being the whole answer, is necessary for this and for sound urban redevelopment and renewal.

11. The basic Road Programme figures include £1.5m. in 1965/66 rising to £2.9m. in 1969-70 for expenditure in England and Wales on classified roads in new towns and on schemes approved under the Town Development Act, 1962.

12. As from the beginning of the current financial year, the Ministry of Housing and Local Government have become responsible for the programming of this expenditure, and a review of the requirements by that Ministry has led to proposals for a small additional programme of £1.1m. in 1966-67 falling to £0.1m. in 1969-70. These amounts are included in the additional programme. They relate only to schemes already approved. A number of large new schemes have been announced e.g. Ipswich, Northampton, Peterborough, which are likely to require further additional expenditure towards the end of the period under review.

Other new construction

13. This consists of expenditure by local authorities as follows:

(a) on unclassified roads, amounting in England and Wales to £9.5m. in 1965-66 and £12.1m. in 1969-70;

(b) on car parks - see para. 16 below;

(c) on street lighting installations - see para. 19 below;

14. In Scotland, expenditure on these items taken together rises from £5.0m. in 1965-66 to £5.1m. in 1969-70.

15. Amounts included under these heads are forecasts rather than programmes. The central government has only a very loose control over this expenditure by way of loan sanctions. If any substantial restraint was to be applied it would have to be backed by a Government announcement of an intention to restrict this expenditure.

Car Parks (England and Wales)

Basic programme

16. This is based on the trend of expenditure in previous years and current loan sanction applications. It amounts to £8.2m. in 1965-66 rising to £10.5m. in 1969-70.

Additional programme

17. Recently, however, the Government has issued a Planning Bulletin giving general guidance to local authorities on the subject of parking in town centres. It stresses the importance of comprehensive parking policies and explains that the Government regard this as an essential step in securing the use of road space and will, therefore, have regard to parking policies when considering proposals for classified road grants.
18. A considerable increase in the scale of car parking provision is expected as a result of this, and an additional programme of £1m. in 1966-67 rising to £15m. in 1969-70 has been proposed to cater for this.

Street lighting (England and Wales)

19. The basic programme provides for expenditure at a constant rate of £6m. a year. This is met entirely by local lighting authorities, apart from a small amount met by the Ministry of Transport by way of 50 per cent contributions towards the cost of lighting certain trunk roads to an approved standard.

20. An additional programme rising from £0.6m. in 1966-67 to £1.1m. in 1969-70 is now proposed to enable the Ministry to secure the provision of adequate lighting on further lengths of trunk road. The Treasury have agreed in principle that in future the whole cost of provision and maintenance of lighting on trunk roads should be met by the central government. It is known that good street lighting can reduce the number of accidents after dark by at least 30%. The present rate of installation is inadequate, but is limited by the ability of lighting authorities to meet their share of the cost. In many cases where lighting is known to be needed, there is no prospect of its provision under existing arrangements. It is, therefore, proposed to install lighting on 450 miles of trunk road over the next three years (for payment in 1966-67 to 1968-69) according to a system of priorities based on cost and anticipated saving in accidents. At the end of the period an assessment will be made of the need for lighting on the remainder of the trunk road network. For present purposes it is assumed that expenditure in 1969-70 will continue at the level of the previous three years.

Maintenance and Minor Improvements

21. This provision covers the following:

(a) motorways: £1.0m. in 1965-6 rising to £2.0m. in 1969-70.
(b) trunk roads: provision averaging £20.4m. a year.
(c) classified roads in counties: the provision averaging about £61.9m. a year of which about 70% is borne by the Exchequer and the remainder by the County Councils.
(d) classified roads in county boroughs: £37.3m. in 1965-6 rising to £39.0m. in 1969-70.
(e) unclassified roads: £57.0m. in 1965-6 rising to £61.0m. in 1969-70.
(f) maintenance of street lighting: £18.7m. in 1965-6 rising to £21.3m. in 1969-70.

22. The increase under (a) is due to the rapid increase in the mileage of motorways.

23. The provisions of (b) and (c) are governed by the 10 year programmes agreed by the previous Government and, in the case of classified roads, publicly announced last year. The object of these programmes is to secure long term economies in the repair of roads (by improved foundations and long life surfacing) and to get better value out of the system by increased provision for
minor improvements of great traffic value (widening and straightening of sub-standard roads). These improvements will be accompanied by a decrease in expenditure on maintenance of less permanent value (short term repairs, patching etc.).

24. Much of the trunk road system is not up to a satisfactory standard, and it is likely that the present programme will prove to be inadequate. The Ministry's reassessment of needs is not yet complete, but proposals may have to be made in future years for an increase in the programme for maintenance and minor improvements of trunk roads.

25. Expenditure under heads (d) (e) and (f) is met by the local authorities themselves and is not subject to control by the Ministry. The amounts provided for are a projection of the known expenditure in earlier years.

Testing of Heavy Goods Vehicles

26. Provision is proposed as an additional programme for the capital expenditure which will be required for the implementation of the scheme for an annual testing of heavy goods vehicles which was announced on 2nd June with the agreement of the Home Affairs Committee (Item 2 of H(65)9th Meeting) - 1966-67 £2.1m, and 1967-68 £2.0m. The amounts provided are provisional because the number of testing stations and the cost of the equipment cannot be forecast with reasonable accuracy pending further discussions with industry and the testing of prototype equipment. It is intended that both the capital and running costs of the schemes should be recovered by the charging of fees for testing.

27. There is a general public feeling that the annual testing of heavy lorries is long overdue. Parliamentary and public opinion, including those sections of the industry who had wanted the testing facilities to be provided by private garages and not by the Government, will be critical of delay. It is most important that authority should be given for expenditure on the purchase of sites for stations in the financial year 1966-67, although the greater part of the expenditure will probably fall in the following year.

T.F.

Ministry of Transport, S.E.1.

21st June, 1965
Memorandum by the Minister of Overseas Development

1. Introduction. Britain's aid programme is part of a sustained international effort to raise standards of living in the underdeveloped countries. This effort has grown since the war from small beginnings to a total net flow of official funds of nearly £2,160 million a year. This flow is itself far less than the admitted need; and Britain's contribution is not outstandingly high.

2. The purpose of our aid is to transfer real resources, that is goods and services, from ourselves to the recipients, and it is sometimes supposed that the resulting burden on our balance of payments is equal to the amount of our expenditure. This is not so. Over 40 per cent of our aid is formally tied to the provision of British goods and services and a great deal of the remainder returns to the United Kingdom. It is true that if, as at present, our economy is working at full capacity, increases in public expenditure (at home as well as abroad) place some strain on our balance of payments and that some aspects of aid have special balance of payments effects. The general effects are not different from those of other public expenditure. The special effects are being considered interdepartmentally. On the basis of the detailed investigations already made, it is the view of my officials that under normal conditions the additional foreign exchange saving from a restriction of the aid programme in relation to other forms of expenditure, does not exceed 25 per cent to 30 per cent. This is a lower figure than has previously been quoted because of the efforts we are making to hold down this burden.

3. The fundamental object of our aid programme is to contribute to development overseas. This is our duty, together with other aid donors, as an industrialised country; but it is also in our own national interest. Aid is now a major factor in international relations. In the long term, higher standards in the less developed countries will be essential to the maintenance of peace and will be to our own benefit as a trading nation. In the shorter term, British aid to a number of countries, especially in the Commonwealth, which have had close relations with us for many years, is a necessity for their continued independent existence.
4. To be effective, our programme has to have continuity. Developing countries must know what to expect from donors. Disbursements of aid in any one year often do not result from commitments in the immediate past; they more usually relate to pledges or agreements entered into two or more years previously. For this reason it is not possible to increase or reduce aid expenditure significantly over a short period. The word "commitment" can be variously interpreted. In the broadest sense, we are "committed" to supply aid to, for example, Malawi for as long as they need it for solvency, and to India while we remain a member of the international group dedicated to providing aid for its development. In the narrower sense, we are "committed" to aid those and other countries to the extent that we have already made firm pledges of definite amounts over a specified period ahead, some of which have been set out in formal intergovernmental agreements. It is not realistic, however, to seek to distinguish between our formal commitments, defined in this narrow sense, and the obligations which we cannot escape in continuation of our aid policy.

5. The Programme. The "basic" and "additional" programme submitted by this Ministry for the Public Expenditure Survey must be seen against the background described in the preceding paragraphs. The figures submitted were:

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<th>1954/5</th>
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<tr>
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The basic programme was a construction within the strict limits formulated by the Treasury for this part of the forecast. These required that the estimated outturn for 1954/5 should be increased by a total of not more than 18.8 per cent over the next five financial years; and that the element of voted expenditure in the 1955/6 figure should be restricted to the amount included in the substantive Estimates for that year. The additional programme was to assume an increase in expenditure corresponding to the forecast requirements of policy as at present formulated. This increase would bring our total to £335 million by 1959/70 or approximately 1 per cent of the then estimated Gross National Product. No allowance has been made in these figures for rising prices in the meantime.

6. The Basic Programme. The framework laid down for the projections of the basic programme meant, of course, that they bore no relation to the Ministry's estimates of likely disbursements in the years in question. There is evidence that the high interest rates on our aid loans - the result of the necessary internal measures taken by the Government in the autumn of 1964 - resulted in artificially low drawings on them in the latter part of the
financial year 1964/5. (The final outcome was less than that for the calendar year 1964.) Our base figure for the projection was therefore artificially low. The 1965/6 forecast contained, by definition, no allowance for Supplementary Estimates (and we can include in the substantive Estimates only expenditure which can clearly be foreseen as a result of existing policies and decisions). Our actual forecast expenditure for 1965/6 is £210 million to £220 million - exceeding the basic programme figure for the following financial year and perhaps equalling that for 1967/8. As will be seen below, the projections for the basic programme are unrealistic even in relation to our existing commitments to developing countries.

7. The additional programme. The rate at which we advance must depend on our own economic recovery and future progress; but, in view of our past pronouncements, we should find it hard to justify to Parliament and the public a target for 1969/70 of less than 1 per cent of G.N.P. for our gross Government disbursements on aid. Nor in practical terms, could we manage with less. As we show below, total expenditure of about £335 million in 1969/70, which would approach this percentage of G.N.P., would be the probable outcome of our existing aid policies, with little allowance for the introduction of new measures which we believe to be necessary to the effectiveness of our future aid programme.

8. Existing Commitments. In the Appendix we show our forecast disbursements over the next five financial years. Column (a) in each year gives a forecast on the basis of actual formal commitments (in the narrowest sense) now existing; column (b) shows this figure plus expenditure from new and likely commitments resulting from existing policies and necessary new measures. It will be seen that the existing commitments figure declines from £207.5 million in 1965/6 to £110.5 million in 1969/70. But we could not in fact restrict our expenditure in this way. To do this would mean offering no further aid and opting out of all international relations which involve it. This would inflict grave damage on the economies of a large number of developing countries, virtually destroy our good relations with them, and put us in an impossible international position. For example, our bilateral financial aid to the independent Commonwealth would decline to less than £10 million. This would mean that our vital contributions to the development of such sensitively-placed countries as India, Pakistan and Kenya would almost cease, as would our already small amounts of aid to foreign countries. Even in the shorter term, our position would be hardly less serious. Our figure
for existing commitments in 1965/7 (£189.5 million) includes only half of our present level of aid to East Africa (where, in Kenya, the problem of land settlement involves in a high degree our good faith) and would entail cutting off altogether our general purpose aid to India. Among foreign countries, aid to such high priority areas as Turkey and Jordan would virtually cease.

9. We must in fact regard ourselves as committed by our existing policies to a level of expenditure of about £250 million in 1966/7. The increase over the figure of £210 million to £220 million for 1965/6 (paragraph 6) is mainly accounted for by the rise in disbursements on India, including Indian debt, referred to in paragraphs 11 and 14 below, and by increased expenditure on technical assistance to which ministers have already agreed. But we cannot effectively continue our existing policies without leaving some room in our programme for new projects and new initiatives to make the programme more effective. The recommendations which we now put forward make some modest provision for this.

10. The Programme Envisaged. A programme building up to £335 million in 1969/70 would represent the fulfilment of our present obligations and make a reasonable (though not generous) allowance for necessary new initiatives.

11. The sum included in it for our primary obligation, aid to the Dependencies (£33 million), is only a little over £2 million more than the current annual rate of disbursement at to-day's prices, and is in accordance with the level of aid envisaged in the recent Overseas Development and Service Act. The allowance for bilateral aid to the independent Commonwealth must include an increase in our aid to India. This is likely to rise to well over £50 million a year within the next year or two, including £20 million from funds already committed, between £15 million and £20 million for the Durgapur Steelworks, to which we are virtually committed, and a further £30 million which represents little more than the present level of aid for essential imports to maintain the Indian economy. A total allowance for India of between £50 million and £55 million a year by 1969/70 is the least we can envisage, with some consequential increase for Pakistan. With an allowance of only £10 million for increases in other Commonwealth countries (including such important areas as East Africa and Nigeria), our bilateral financial aid to the Commonwealth would then total £345 million in 1969/70.
12. For foreign countries, an average annual level of expenditure of £30 million to the end of 1965/6 was agreed in 1963. Our present forecast for that year is in fact £26 million including the refinancing of debt (£6 million) which is dealt with separately below. If we are to play our full part in international aid, the share of foreign countries in our programme should be increased, and a level of about £37 million (excluding debt) by 1969/70 would be no more than reasonable. This is a small sum in relation to the needs in the Far and Middle East, Africa and Latin America.

13. Our bilateral technical assistance (the part of the bilateral programme to which we attach the greatest importance) will cost £32 million in 1965/6. The continuance of our present programmes is indispensable to the stability and well-being of the recipients; and Ministers have recently approved a number of new initiatives, including the Special Institution for Development Studies, the corps of specialists and the extension of the home base, which are all needed if the effectiveness of our bilateral aid is to be maintained. Expenditure will reach £37 million by 1966/67 and a total of £45 million by 1969/70 may be expected.

14. Increasingly we shall be called upon to assist, together with other creditors, in the refinancing of debt for developing countries. We are committed to £6 million of this expenditure in 1965/6, which is the level of recent years. Ministers have already taken note, however, of the next major problem of Indian debt, for which we may have to find £10 million a year. Other cases will certainly arise. A total of £20 million for 1969/70 is a conservative estimate.

15. For the Exchequer drawings of the Commonwealth Development Corporation we allow an increase of only £2 million to £10 million a year.

16. Our multilateral aid (which consists mainly of our contributions to the international agencies dealing with the various kinds of development assistance) will total £29 million in 1965/6. The leading agency is the International Development Association, which lends for development projects on very soft terms. The Association plans to increase its operations and if this is agreed we shall have to contribute a proportionate share to its funds. The present level of our subscription is £11 million to £12 million.
a year, and we expect this to be £20 million by 1969/70 if other donors also play their part. A new initiative which we took at the UNCTAD is a scheme (Supplementary Financial Measures) designed to assist countries whose development plans are frustrated by adverse fluctuations in export earnings. A relatively modest scheme of this kind would be likely to cost us £10 million a year, in a few years time. These, together with other new proposals, are likely to raise our multilateral programme as a whole to some £51 million in 1969/70.

17. A programme significantly less than £335 million in the final year of this Survey would force us to make radical changes in our existing policies which would damage the developing countries, especially those of the Commonwealth, and our relations with them; would preclude us from taking new initiatives of our own, or participating in those of multilateral agencies, designed to improve the effectiveness of our own and Western aid. In either event, the widening gap between the standards of the advanced and the developing world would be worsened, at great risk to world peace and stability.

B.A.C.

Ministry of Overseas Development, S.W.1.

21st June, 1965
### Forecast Disbursements of Aid 1965/66 to 1969/70

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**Notes:**

- (a) = disbursements arising from firm commitments
- (b) = (a) plus new and likely commitments
- Totals of Sections are rounded to nearest £.5 million
CABINET
PUBLIC EXPENDITURE
THE AID PROGRAMMES, 1966/7

Memorandum by the Minister of Overseas Development

At the meeting of the Ministerial group on Public Expenditure on July 4th I was questioned about the difference between the "basic" programme for aid of £215.5 million for 1966/67 and the figure of £251.2 million shown in the table I circulated at the meeting which in my view represents the lowest possible figure for the year in question. I explained at the meeting that, owing to existing formal commitments and continuing obligations based on existing policy, I am sure that it is not feasible to keep within the figures in the "basic" programme.

2. The figure of £251 million represents a substantial saving on the original figure of £285 million which I submitted for 1966/67. The new figure was arrived at as a result of a rigorous examination of the original figures with the object of getting the estimated disbursements for 1966/67 as low as possible. As explained below, it contains no margin for contingencies.

3. This paper deals with the year 1966/67, although I shall refer in the last paragraph to the subsequent years up to 1969/70. In the table which follows I show the expected expenditure in the current financial year (Column A) and the level of expenditure which I think necessary in 1966/67 (Column B). Column B shows formal commitments for 1966/67 and Column C expenditure made necessary by continuing obligations based on existing policy:-
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The "estimating adjustment" shown under Columns A and D is to allow for the tendency of aid disbursements up to now to lag somewhat behind estimates. We have made a further estimating adjustment of £10 million in the total of £65 million which is the detailed estimate for India included in the Commonwealth figure under Column D, making a total estimating adjustment of £30 million.

4. In the figures we have submitted we have defined formal commitments very strictly - perhaps too strictly. For example, we have excluded from Column B (Formal Commitments) and included under Column C budgetary and development aid to Malawi because, with the object of being in the best position to influence Dr. Banda's development policy, I have refused to commit myself to any figure for aid after the current year; but it is in fact inescapable that our aid to Malawi should continue if the administration of the country, to which we are virtually the only donor, is not to collapse. Again, because this is committed annually, we have excluded from Column B non-project aid to India, i.e. aid to help supply India's needs for essential imports; but this is a form of aid which we have been regularly giving as a
member of the Indian Consortium and which is regarded by the Government of India and ourselves as having the highest priority. We have limited the figure in Column B for technical assistance to the amount for which we have actually made detailed specific commitments. But this figure is quite unrealistic as an estimate of what we must actually spend if for example the number of people we recruit for service overseas is not to fall. It is in fact £10 million below the current rate of expenditure. Technical assistance is a continuing process and we cannot suddenly turn off the tap. I give these examples to show that in practice the total for firm commitments under Column B is much below our minimum requirement for 1966/67.

5. The composition, in broad terms of the figures in column C (continuation of present policy) is as follows:

(i) Commonwealth. Roughly £14 m. is for India; this includes the general purpose aid at its present level. The total figure for India would be £10 m. higher but for the estimating adjustment which we have made, referred to at the end of paragraph 3. Because of this increase for India we must allow for at least a small increase (£2.5 m.) in aid to Pakistan.

The Commonwealth figure includes nearly £10 m. for Malawi, which for the reasons given above we cannot avoid. It includes a further £12 m. spread over a number of African countries, to provide for a continuation of aid broadly at the same level as the present and to help land settlement in Kenya. These countries are heavily dependent on us as the major supplier of financial aid and we cannot turn off the tap without going back on our existing policies. For can we escape expenditure to help settlement in Kenya without inflicting grave damage economically and politically on that country and causing ourselves considerable embarrassment in Parliament. This expenditure in effect consists of a continuation of existing policy with regard to settlement. The Stamp Mission has sharply scaled down the Kenya Government's original request to us for this type of aid.
Since the programme contains nothing for contingencies, the Commonwealth figure makes no provision for rescue operations for Ceylon and Ghana. We shall certainly be pressed within the next few months to take part in such international operations for both countries; the precise amounts required cannot yet be foreseen, but might easily add a further £10 m. to the figures. There is no slack in the programme from which such a sum can be found.

(ii) Foreign Countries. Nearly £4 m. is to provide continuing aid to Turkey and about £2 m. to Jordan. The remainder consists of relatively small amounts for a number of countries. The total of £11 m. for foreign countries in table C, when added to the £11 m. representing firm commitments in column B, makes a total programme for foreign countries for 1966/67 below the level agreed by the last Government as the aid allocation for foreign countries, so that in asking for this we are simply continuing existing policy.

(iii) Debt. Virtually the whole of the increase consists of what we shall have to provide if we join with other members of the Indian Consortium in meeting the Indian request for relief on the service of outstanding development loans. My colleagues have already agreed to our discussing this step in the Consortium. Relief on the debt burden is in my opinion inevitable if Indian development is to proceed on anything approaching an adequate scale. The estimate for Indian debt is £10 m. in 1966/67.

(iv) Bilateral technical assistance. As I have explained above £10 m. of the total of approximately £15 m. in column C represents the difference between formal specific commitments to supply experts, etc., into which we have entered, and the present level of expenditure. The process of accepting new detailed commitments goes on throughout the year from week to week, so that the figure for formal commitments at any one time is quite arbitrary; and we could not in practice cut expenditure below its existing level. The remaining £5 m. is
mainly for new initiatives in recruitment etc., which have recently been approved by Ministers. I attach the highest priority to these and I cannot abandon or delay them without departing from one of the central features of our aid policy which has just been endorsed by Ministers.

6. The conclusion which I draw from the above figures is that we cannot budget for less than £251 m. without abandoning existing policies which are crucial to our relations with the countries concerned, to our aid programme and to our international standing. In arriving at our figure we have made an estimating adjustment of £30 m. in all (including adjustment for India) to allow for slower disbursements than the figures in the estimates. We cannot go further than this. We have to recognize that the figure of £251 m. does not include anything for rescue operations to Ceylon and Ghana which are likely to be obliged to undertake.

7. On the programme up to 1969/70, I will only say this. We must in my opinion provide for an increase over the figures for 1966/67. Taking multilateral aid first and dealing only with major items, we must provide in the years after 1966/67 for the Supplementary Financial Assistance which the previous Government took the lead in promoting at UNCTAD last year; this is estimated at £10 m. per year. We shall be called upon to increase our contributions to the International Development Association - accounting for another £6 m. This is the most effective of all forms of multilateral aid, and experience has shown that it actually benefits our balance of payments because we sell more British goods than the money we put in. On bilateral aid we must provide for our Colonial territories the amounts made available under the Overseas Development and Service Bill now before Parliament - the increase over 1966/67 is only £2 m. We shall not in my opinion be able to escape a further increase for debt; the increase put at £6 m. over 1966/67 may well prove an under-estimate. And we cannot expect the rest of our
bilateral programme to remain static; some increase must be provided for bilateral technical assistance, my own highest priority. Some increase must also be provided for capital aid to independent countries, both Commonwealth and foreign, if we are not to damage our political relationships.

B.A.C.

Ministry of Overseas Development, S.W.1.

6th July, 1965

NOTE: An itemised statement of estimated expenditure in 1964-65 and 1965-66 and of firm and prospective commitments in 1966-67 is attached as an Appendix to this note.
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<th>1966-67 (Estimated)</th>
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Memorandum by the Minister of Housing and Local Government

1. The two housing items in Category A are Item 4, Public Housing Investment; and Item 5, Housing Subsidies (public and private) and Improvement Grants.

Public Housing Investment

2. This comprises the housing programmes of local authorities and new towns in England, Scotland and Wales.

3. The rate of approvals is running this year for England and Wales at 156,000 houses (including 6,000 for new towns), in line with the Cabinet decision in February, and the "basic" programme shown in the P.E.S.C. report assumes continuity at this rate over the next four to five years, except for some increase in house building in new towns. The Secretary of State for Wales and I contend that, as an essential element of the Government's policy, the local authority housing programmes for the two countries must increase steadily each year as productivity increases; and that this decision of policy cannot be left to the mercy of what is available in some remainder item. Thus our proposals are not divisible into basic and additional; and the figures in the Report (which assume this division) have been produced without commitment. What we propose is most clearly expressed as an annual increase of 5% in the local authority programme over and above the level approved for this year; which means an additional 7,500 housing approvals for local authorities each year, bringing the 1969-70 local authority programme to 180,000 approvals. The monetary figures would be as shown in the Table annexed.

4. The Secretary of State for Scotland has broadly the same approach, and his P.E.S.C. figures, which were divided into basic and additional programmes, meet the Cabinet decision in February about the permissible rate of growth for housing. In his view the annual rate of increase necessary for Scotland is about 6-7% - because the main weight of housing provision there falls on the public sector - and the programme would move from 31,000 approvals in 1965-66 to 40,000 in 1969-70.

5. On this basis the number of house completions by public authorities in Great Britain in 1970 would be of the order of 250,000; and assuming that private enterprise, after a probable dip this year, recovers and then continues at about last year's level of 247,000 started (and I am discussing with the building societies ways and means of assuring this) that would give us a total housing output of about 500,000 by 1970. This should not be beyond the capacity of the building industry, especially given the steady increase in the use of industrialised building methods for which I am planning.
Housing Subsidies and Improvement Grants

6. The size of Item 5 depends partly on what is decided about public housing investment; and partly on the extra cost of (i) a revised subsidy structure for local authorities and (ii) a scheme for reducing the interest burden on new mortgages taken out by owner-occupiers. The details of these new policies are being worked out and final proposals will be brought before the Cabinet in due course. Allowance has been made in the total figure of £276m. shown against Item 5 for all these factors (including a provisional £3m. for the additional cost of the rising public sector programme proposed); but until the financial schemes are finally settled this figure can only be provisional.

R. H. S. C.

Ministry of Housing and Local Government, S.W.1.

18th June, 1965
### Item 4: Public Housing Investment

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<td>Scotland</td>
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<td>93.9</td>
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<td><strong>Total</strong></td>
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CABINET

PUBLIC EXPENDITURE TO 1969-70

Note by the Secretary of the Cabinet

The attached Report by the Public Expenditure Survey Committee on Public Expenditure to 1969-70 is circulated to members of the Cabinet for information, in connection with the forthcoming report by a group of Ministers under the chairmanship of the Chancellor of the Exchequer which has been reviewing the allocation of public expenditure (see C. C. (65) 33rd Conclusions, Minute 3).

(Signed) BURKE TREND

Cabinet Office, S. W. 1.
9th July, 1965
PUBLIC EXPENDITURE
TO 1969–70

Report by the Public Expenditure Survey Committee
PUBLIC EXPENDITURE
TO 1950-51

Report of the Public Expenditure Survey Committee
REPORT OF THE PUBLIC EXPENDITURE SURVEY COMMITTEE, 1965
PUBLIC EXPENDITURE TO 1969-70

Introduction

This is the fifth annual report on public expenditure. It deals with public expenditure in its widest sense and includes the current and capital expenditure of central and local government, the gross outgoings of the National Insurance Funds, and the investment expenditure of nationalised industries (although this is for some purposes treated differently from the rest), but it excludes debt interest.

2. The report is agreed by the Public Expenditure Survey Committee as giving as realistic a costing as possible of the policies involved. It is accepted however that the inclusion in this report of forecast expenditure figures, whether for basic or additional programmes, does not of itself commit either the Treasury or the Departments to those figures.

3. Wherever possible, projections of expenditure have been on specified policies and programmes. Where this has not been possible, predictions have been made on the basis of past trends or by whatever other means seemed most appropriate. In the case of defence expenditure, it has been assumed that Her Majesty's Government's aim of holding it at the 1964-65 Estimates level in 1969-70 will be achieved; this depends on the outcome of the Defence Review.

Economic growth

4. Ministers have already agreed that for industrial planning purposes the starting assumption should be that the Gross Domestic Product (G.D.P.) will grow by 25 per cent between 1964 and 1970 (or at an average rate of 3% per cent a year over the six years). For the purposes of relating long-term programmes of public expenditure, other than for the nationalised industries, etc., to prospective resources, it has been agreed that it should be assumed that G.D.P. will grow by 22 1/2 per cent in the same period (or approximately 3 1/2 per cent a year). This difference reflects the fact that in planning public expenditure it is important to have regard primarily to what can be afforded, while for industrial planning and public presentation purposes it is desirable to aim rather higher, since such an aim will of itself be a factor in the achievement of the desired end. In terms of public expenditure this means that investment by the nationalised industries has been projected on the assumption of a 25 per cent growth in G.D.P. over the six calendar years 1964-70, whereas for the remainder of public expenditure the 22 1/2 per cent assumption has been used wherever this assumption is relevant to the projection involved.*

Background

5. The background to this year's Survey is contained in the paper on public expenditure submitted by the Chancellor of the Exchequer to the Cabinet in January last (C. (65) 10), the proposals in which were approved by the Cabinet at a meeting on 28th January, 1965. The main proposal was that over the five-year period 1964-65 to 1969-70 the planning of public sector expenditure (excluding the investment of the nationalised industries, etc.) should be based on an average annual rate of increase of 4 1/2 per cent per annum at constant prices (i.e., a rise of 23 per cent over the period).

6. This decision was announced in Parliament on the occasion of the publication of the 1965 Vote on Account, on 22nd February, 1965, when the Chancellor of the Exchequer stated that "... the Government have decided that the growth of public sector expenditure ... will be related to the prospective increase in national production, which ... means limiting the average increase ... taking one year with another, to 4 1/2 per cent a year at constant prices." This commitment was repeated in the Budget Speech on 6th April, 1965, in virtually identical terms, and the staff of the International Monetary Fund took note of it in the course of the consultations with this country preceding the United Kingdom's latest drawing on the Fund. The Government's determination was again reaffirmed publicly by the Prime Minister in his address to the Economic Club of New York on 14th April, 1965.

* As an exception to this, the figures for benefits and assistance, which are calculated with reference to the expected rise in real earnings per head in the community at large, are based on the 25 per cent assumption.
7. At the same time as the Cabinet agreed to the 4½ per cent per annum limit on the growth of public expenditure, they agreed that for the major blocks of expenditure Departments should prepare basic programmes reflecting stated rates of increase for each block as laid down in the Chancellor's paper. Where Departmental Ministers wished to exceed these stated rates of growth they would be able to submit additional programmes reflecting any foreseeable changes of policy which they wished to introduce if it proved possible. These main blocks cover some 80 per cent of total public expenditure, and these are the blocks upon which Ministers will take decisions this summer. Of the remainder, much is not susceptible to accurate forecasting, but where it is possible to do so, figures have been agreed for the cost of existing policies at a minimum practicable level, and of any further developments of policy which Departments would wish to propose.

Public expenditure to 1969-70: Category A

8. Table 1 below sets out the figures relating to the main blocks (Category A) in respect of which decisions will be sought from Ministers. This table shows the cost of present policy in 1964-65 and 1965-66, and the cost of the basic programmes, in accordance with the limits laid down in January by the Cabinet, in 1969-70. It also shows the cost of additional programmes in 1969-70. A fuller set of figures, showing the cost of basic and additional programmes in the intervening years, will be found in Table 4 in Appendix I.

**Table 1**

**A. Blocks for Decision**

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
<td>1965 Survey</td>
<td>1969-70</td>
<td>Basic</td>
<td>Additional (a)</td>
</tr>
<tr>
<td>1. Defence Budget</td>
<td>2,073-0</td>
<td>2,134-1</td>
<td>2,075-0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Overseas aid</td>
<td>130-7</td>
<td>195-6</td>
<td>228-5</td>
<td>106-5</td>
<td></td>
</tr>
<tr>
<td>3. Roads</td>
<td>405-7</td>
<td>426-3</td>
<td>574-9</td>
<td>30-0</td>
<td></td>
</tr>
<tr>
<td>4. Public housing investment</td>
<td>519-5</td>
<td>571-0</td>
<td>626-1(b)</td>
<td>105-8</td>
<td></td>
</tr>
<tr>
<td>5. Housing subsidies (public and private) and improvement grants</td>
<td>153-3</td>
<td>162-7</td>
<td>211-8</td>
<td>62-7</td>
<td>274-5</td>
</tr>
<tr>
<td>6. Police and prisons</td>
<td>230-5</td>
<td>237-4</td>
<td>271-0</td>
<td>18-1(c)</td>
<td>289-0</td>
</tr>
<tr>
<td>7. Education (with school meals and milk)</td>
<td></td>
<td>1,459-0</td>
<td>1,573-9</td>
<td>1,887-9</td>
<td>165-9</td>
</tr>
<tr>
<td>8. Health and welfare (with welfare foods)</td>
<td></td>
<td>1,237-5</td>
<td>1,316-3</td>
<td>1,504-0</td>
<td>88-3</td>
</tr>
<tr>
<td>9. Benefits and assistance (including family allowances)</td>
<td></td>
<td>2,120-1</td>
<td>2,378-6</td>
<td>2,860-2</td>
<td>185-0(d)</td>
</tr>
<tr>
<td>Total Category A</td>
<td>8,379-3</td>
<td>8,996-9</td>
<td>10,239-4</td>
<td>762-2</td>
<td>11,001-6</td>
</tr>
</tbody>
</table>

Note: Figures for the years 1964-65 to 1969-70 inclusive are in Table 4.

(a) The figures in this column are those submitted by Departments, the realism of the estimates for which (as distinct from the merits of the underlying policies) has been discussed and very broadly agreed with the Treasury.

(b) This assumes that housing investment by local authorities in England and Wales is held at the 1965 rate of approvals.

(c) Includes £6.7 million which would be needed over and above the Cabinet limit on the basic programme to enable existing policies to be carried out.

(d) Includes £25 million in respect of family allowances. Precise proposals have not been formulated and might well prove more expensive (see paragraph 113 of Appendix II).

*With two exceptions: the housing investment figure is higher, reflecting a subsequent Cabinet decision; and housing subsidies, etc., was not, in fact, a block for which any specific limit was set by Cabinet, but in view of its close connection with the housing programme, and the major policy decisions at issue in this field, it is now included in this Category.*
Public expenditure to 1969-70: Category B

9. Table 2 below sets out corresponding figures covering both existing policies and possible future policy developments for Category B—viz., the remainder of public expenditure (other than nationalised industries, etc.). It must be emphasised that at this stage the figures in this Table and in the corresponding part of Table 3 are simply the result of adding together all the expenditure, both in respect of existing policies and new proposals, for the services covered. As is explained in paragraph 10 below, the total thus arrived at for 1969-70 will not necessarily be the right figure to use in determining the allocation of resources for 1969-70.

### Table 2

**B. Other Public Expenditure**  
(Excluding Nationalised Industries, etc.)

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>1. Assistance to industry, transport and agriculture (a)</td>
<td>664-2</td>
</tr>
<tr>
<td>2. Ports and airports (a)</td>
<td>39-2</td>
</tr>
<tr>
<td>3. Industrial research and research councils</td>
<td>154-6</td>
</tr>
<tr>
<td>4. Other environmental services</td>
<td>642-3</td>
</tr>
<tr>
<td>5. Land Commission</td>
<td>724-6</td>
</tr>
<tr>
<td>6. Miscellaneous</td>
<td>...</td>
</tr>
<tr>
<td><strong>Total Category B</strong></td>
<td><strong>2,224-9</strong></td>
</tr>
</tbody>
</table>

*Note: Figures for the years 1964-65 to 1969-70 are in Table 5.  
(a) These two items are covered in Tables 14, 15, and 16.*

10. Table 2 sets out the figures submitted by Departments for all expenditure outside the Category A blocks. It covers a very wide variety of different types of expenditure. Some are in principle no different from the blocks in Category A, save that they are relatively small (e.g., civil research by the A.E.A.) or relate to services in respect of which interdepartmental discussion is not yet sufficiently advanced for firm programmes to be fixed (e.g., technology). Some partake more of the nature of commercially remunerative capital expenditure (e.g., ports) and might indeed be more properly classed with nationalised industries' investment for the purposes of the present exercise. Some—an appreciable part—cannot reasonably be forecast quantitatively for five years ahead and any figures entered for such items must of necessity be largely arbitrary (e.g., agricultural support). It is clear that in so heterogeneous a collection, and with so many uncertainties, it is not reasonable to arrive at a total for operational purposes merely by adding together all the component parts. At a later stage, therefore, it will be necessary to make a broad estimate of the aggregate needed for Category B. But for the present the summary tables in this report are based on the sum of the individual items.
Public expenditure to 1969-70: Total

11. Table 3 below brings together the figures in Tables 1 and 2.

**TABLE 3**

**Total Public Expenditure**

**Summary**

<table>
<thead>
<tr>
<th>Category A: Basic programmes</th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964 Survey</td>
<td>1965 Survey</td>
</tr>
<tr>
<td>1964-65</td>
<td>1965-66</td>
</tr>
<tr>
<td>8,379.3</td>
<td>8,996.9</td>
</tr>
<tr>
<td>Category A: Additional programmes</td>
<td></td>
</tr>
<tr>
<td>762.2</td>
<td></td>
</tr>
<tr>
<td>Category B: Total (a)</td>
<td>2,224.9</td>
</tr>
<tr>
<td>Adjustments (including Northern Ireland)</td>
<td>196.5</td>
</tr>
<tr>
<td>Contingency allowance (b)</td>
<td></td>
</tr>
<tr>
<td>Total subject to 4½ per cent limit</td>
<td>10,800.7</td>
</tr>
<tr>
<td>Investment of nationalised industries, etc.</td>
<td>1,272.4</td>
</tr>
<tr>
<td>Grand Total</td>
<td>12,073.1</td>
</tr>
</tbody>
</table>

(a) See paragraph 10 above.
(b) See paragraphs 17 to 19 below.

The intervening years

12. It will be seen from Table 3 that between 1964-65 and 1969-70 expenditure in the Category A blocks is expected, on basic programmes alone, to rise by 22.2 per cent (or an average of 4.1 per cent a year) at constant prices. This is in accordance with the limits for these individual blocks as set out in the Appendix to C. (65) 10 and agreed by Cabinet. If additional programmes are included the annual average percentage increase becomes 5.6.

13. The rise in the Category A blocks over the years is as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent increase over preceding year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Category A</td>
</tr>
<tr>
<td></td>
<td>Basic</td>
</tr>
<tr>
<td>1965-66</td>
<td>7.4</td>
</tr>
<tr>
<td>1966-67</td>
<td>4.1</td>
</tr>
<tr>
<td>1967-68</td>
<td>3.6</td>
</tr>
<tr>
<td>1968-69</td>
<td>2.9</td>
</tr>
<tr>
<td>1969-70</td>
<td>2.6</td>
</tr>
</tbody>
</table>

14. These figures include Defence Budget expenditure, and assume that it is held to the 1964-65 level in 1969-70. If defence were excluded the figures would be:

<table>
<thead>
<tr>
<th>Year</th>
<th>Per cent increase over preceding year</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Civil Category A</td>
</tr>
<tr>
<td></td>
<td>Basic</td>
</tr>
<tr>
<td>1965-66</td>
<td>8.8</td>
</tr>
<tr>
<td>1966-67</td>
<td>5.1</td>
</tr>
<tr>
<td>1967-68</td>
<td>4.7</td>
</tr>
<tr>
<td>1968-69</td>
<td>4.1</td>
</tr>
<tr>
<td>1969-70</td>
<td>3.9</td>
</tr>
</tbody>
</table>

15. On the figures as submitted, even when defence is excluded, there is still some apparent tendency for the rate of increase to fall. There are some further specific reasons for this: benefits and assistance have in the past gone up faster than is provided in the formula used here. Then there is the inevitable tendency for future costs to be under-estimated; which creates the need for a
contingency allowance. If a due share of the proposed £150 million contingency allowance were attributed to the Civil Category A basic figures, the increases in the last four years would be steady at around 5-5½ per cent each year.

16. A major problem is presented by the fact that public expenditure is likely to rise more rapidly in the early years of the lustrum and less steeply towards the end, whereas the growth of the economy is likely to be slow in the early years and more rapid later. This incongruity, coupled with the likelihood of marked difficulty in the United Kingdom’s balance of payments in the middle years of the period, is bound to lead to a great strain upon available resources before 1969-70. This means that the level of public expenditure in the intervening years of the period is of crucial importance, and the course of expenditure up to 1969-70 will need to be scrutinised just as carefully as the level to be fixed for the final year.

Contingency allowance

17. When the Government took office, figures of forecast public expenditure were put before them relating to the period up to 1968-69. These included a contingency allowance of £300 million. In his Cabinet paper in January the Chancellor proposed, in order to help meet a difficult situation, to run some degree of extra risk by reducing this figure to £150 million. Such a reduction could perhaps be justified on the ground that now that the overwhelming bulk of public expenditure is to be planned and controlled within firm limits laid down by Cabinet, a larger provision may be less necessary than it was previously.*

18. There are a number of reasons why an allowance of at least this amount is essential. First, there is the inevitable tendency to underestimate the cost of programmes some years ahead. One element in this is the fact that because, for well-understood reasons, the P.E.S.C. figures are prepared on the basis of constant pay and prices, no allowance can be included for any pay increases in public services over and above those required to maintain this pay in the same relationship to that of wage and salary earners generally. This leads to the anomaly that if any such increases were contemplated (e.g., in order to stimulate recruitment in a particular sector) no provision would be available for them. Secondly, there is always the possibility of unforeseen expenditure being required.

19. In view of these considerations, an allowance of £150 million for 1969-70 has been included as a contingency item against eventualities of this kind.

Summary

20. It is the Government’s declared intention that public expenditure, excluding the nationalised industries, between 1964-65 and 1969-70 shall on average rise by not more than 4½ per cent per annum. Between 1964-65 and 1965-66 it is expected to rise by 7-4 per cent. To meet that commitment it must therefore rise by an average of less than 4½ per cent between 1965-66 and 1969-70.

21. In this period (1965-66 to 1969-70) the major blocks of public expenditure—Category A—will, on the basis of the Cabinet limits fixed for basic programmes, rise by an average of 3-3 per cent (£311 million) per annum; or 5-2 per cent, if the additional programmes are included. For the total expenditure subject to the 4½ per cent limit (including the additional programmes, the statistical adjustments and the contingency allowance) the average annual rise from 1965-66 to 1969-70 is 4-9 per cent (£616 million).

Appendices

22. Appendix I to this report provides, in Tables 4 and 5, an expansion of the information given in Tables 1-3 by setting out the figures for the intervening years which, for simplicity, were omitted from those tables. Appendix II contains a summary table (Table 6), giving the full functional breakdown of total public expenditure, followed by detailed tables and notes on each heading. Appendix III provides information on the methodology employed in arriving at the figures used in this report.

Comparison with 1963 White Paper on Public Expenditure (Cmd. 2235)

23. Because of changes in the price basis, in the classification, and in the assessment of such elements as imputed rents, no direct comparisons can be drawn between the figures in this report and those in the 1963 White Paper.

_Treasury Chambers,
Great George Street,
London, S.W.1._

17th June, 1965.
APPENDICES TO THE REPORT OF THE PUBLIC EXPENDITURE SURVEY COMMITTEE, 1965

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APPENDIX II

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</tr>
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<td>Other overseas expenditure</td>
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<td>Agricultural support</td>
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<td>Other assistance to industry, transport and agriculture</td>
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<td>Housing investment</td>
</tr>
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<td>Public and private housing subsidies</td>
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<tr>
<td>Other housing</td>
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<td>Other environmental services</td>
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<td>Police and prisons</td>
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<td>SOCIAL SERVICES</td>
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<td>Education (with school meals and milk)</td>
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<td>Health and welfare (with welfare foods)</td>
</tr>
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<td>Child care</td>
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<td>Benefits and assistance (including family allowances)</td>
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<td>ADMINISTRATIVE AND MISCELLANEOUS SERVICES</td>
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<td>ADJUSTMENTS</td>
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<td>INVESTMENT OF NATIONALISED INDUSTRIES, ETC.</td>
</tr>
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</table>

APPENDIX III

| Methodology | 1-9 |

Notes:

The symbol — indicates "nil"

The symbol -- indicates "not available"
### APPENDIX I

#### Table 4

**Summary of Category A Expenditure: Basic and Additional Programmes**

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
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<tbody>
<tr>
<td><strong>Defence Budget</strong></td>
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<tr>
<td>Basic</td>
<td>2,073.0</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,073.0</td>
</tr>
<tr>
<td><strong>Overseas aid</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>180.7</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>180.7</td>
</tr>
<tr>
<td><strong>Roads</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>405.7</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>405.7</td>
</tr>
<tr>
<td><strong>Public housing investment</strong></td>
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</tr>
<tr>
<td>Basic</td>
<td>519.5</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>519.5</td>
</tr>
<tr>
<td><strong>Housing subsidies, etc.</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>153.3</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>153.3</td>
</tr>
<tr>
<td><strong>Police and prisons</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>230.5</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>230.5</td>
</tr>
<tr>
<td><strong>Education (with school meals and milk)</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>1,459.0</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,459.0</td>
</tr>
<tr>
<td><strong>Health and welfare (with welfare foods)</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>1,237.5</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1,237.5</td>
</tr>
<tr>
<td><strong>Benefits and assistance (including family allowances)</strong></td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>2,120.1</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>2,120.1</td>
</tr>
<tr>
<td><strong>Total Category A</strong></td>
<td>8,379.3</td>
</tr>
<tr>
<td>of which:</td>
<td></td>
</tr>
<tr>
<td>Basic</td>
<td>8,379.3</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
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<tr>
<td></td>
<td>204.8</td>
</tr>
</tbody>
</table>

SECRET
## Table 5

**Summary of Total Public Expenditure**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic programmes</td>
<td>8,379.3</td>
<td>8,996.9</td>
<td>9,362.0</td>
<td>9,700.7</td>
<td>9,977.4</td>
<td>10,239.4</td>
</tr>
<tr>
<td>Additional programmes</td>
<td></td>
<td></td>
<td>264.8</td>
<td>458.1</td>
<td>601.9</td>
<td>762.2</td>
</tr>
<tr>
<td>Total</td>
<td>8,379.3</td>
<td>8,996.9</td>
<td>9,626.8</td>
<td>10,158.8</td>
<td>10,579.3</td>
<td>11,001.6</td>
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</table>

<table>
<thead>
<tr>
<th>Category B</th>
<th></th>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Assistance to industry, transport and agriculture</td>
<td>664.2</td>
<td>648.7</td>
<td>615.6</td>
<td>618.3</td>
<td>618.0</td>
<td>578.4</td>
</tr>
<tr>
<td>Ports and airports</td>
<td>39.2</td>
<td>48.2</td>
<td>56.6</td>
<td>58.3</td>
<td>61.1</td>
<td>58.9</td>
</tr>
<tr>
<td>Industrial research and research councils</td>
<td>154.6</td>
<td>158.6</td>
<td>200.4</td>
<td>201.4</td>
<td>220.9</td>
<td>239.8</td>
</tr>
<tr>
<td>Other housing expenditure and environmental services</td>
<td>642.3</td>
<td>831.6</td>
<td>873.3</td>
<td>891.4</td>
<td>903.1</td>
<td>918.9</td>
</tr>
<tr>
<td>Land Commission</td>
<td></td>
<td></td>
<td>1.5</td>
<td>15.0</td>
<td>28.0</td>
<td>29.0</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>724.6</td>
<td>669.8</td>
<td>767.6</td>
<td>795.0</td>
<td>782.6</td>
<td>808.5</td>
</tr>
<tr>
<td>Total</td>
<td>2,224.9</td>
<td>2,356.9</td>
<td>2,514.7</td>
<td>2,579.4</td>
<td>2,613.7</td>
<td>2,633.5</td>
</tr>
</tbody>
</table>

| Adjustments                    | 196.5   | 222.6   | 233.5   | 238.2   | 251.8   | 255.5   |
| Contingency allowance          |         |         | 50.0    | 100.0   | 125.0   | 150.0   |

| Total subject to 4½ per cent limit | 10,800.7 | 11,576.4 | 12,425.0 | 13,076.4 | 13,569.8 | 14,040.6 |

| Investment of nationalised industries, etc. | 1,272.4 | 1,394.2 | 1,465.2 | 1,518.9 | 1,476.7 | 1,479.9 |
| Grand Total                      | 12,073.1 | 12,970.6 | 13,890.2 | 14,595.3 | 15,046.5 | 15,520.5 |
Table 6 sets out, under the main headings by which public expenditure is classified, the figures corrected to a 1965 price basis for 1964-65 (as seen in last year's Survey) and for 1965-66 to 1969-70 inclusive (as seen in this year's Survey). For the major blocks of expenditure basic and additional programmes are shown separately. For the remainder, the figures make provision for the cost of existing policies at the minimum practicable level and of any further developments of policy which Departments have proposed.

**Table 6**  
Summary of Public Expenditure

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td><strong>Support of External Policy</strong></td>
<td></td>
</tr>
<tr>
<td>Defence Budget</td>
<td>2,073.0</td>
</tr>
<tr>
<td>Other defence</td>
<td>148.3</td>
</tr>
<tr>
<td>Aid programme</td>
<td>180.7</td>
</tr>
<tr>
<td>Basic</td>
<td>—</td>
</tr>
<tr>
<td>Additional</td>
<td>97.7</td>
</tr>
<tr>
<td></td>
<td>2,499.7</td>
</tr>
<tr>
<td><strong>Economic Services</strong></td>
<td></td>
</tr>
<tr>
<td>Roads</td>
<td>405.7</td>
</tr>
<tr>
<td>Basic</td>
<td>—</td>
</tr>
<tr>
<td>Additional</td>
<td>116.5</td>
</tr>
<tr>
<td>Railways and waterways grants</td>
<td>316.4</td>
</tr>
<tr>
<td>Agricultural support</td>
<td>270.5</td>
</tr>
<tr>
<td>Other assistance to industry, transport and agriculture</td>
<td>154.6</td>
</tr>
<tr>
<td>Industrial research and research councils</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>1,263.7</td>
</tr>
<tr>
<td><strong>Environmental Services</strong></td>
<td></td>
</tr>
<tr>
<td>Housing investment</td>
<td>519.5</td>
</tr>
<tr>
<td>Basic</td>
<td>—</td>
</tr>
<tr>
<td>Additional</td>
<td>153.3</td>
</tr>
<tr>
<td>Housing subsidies (including improvement grants)</td>
<td>—</td>
</tr>
<tr>
<td>Basic</td>
<td>78.3</td>
</tr>
<tr>
<td>Other housing expenditure</td>
<td>558.5</td>
</tr>
<tr>
<td>Other environmental services</td>
<td>—</td>
</tr>
<tr>
<td>Police and prisons</td>
<td>230.5</td>
</tr>
<tr>
<td>Basic</td>
<td>1,545.6</td>
</tr>
<tr>
<td>Additional</td>
<td></td>
</tr>
<tr>
<td></td>
<td>£ million at Survey 1965 prices</td>
</tr>
<tr>
<td>----------------------</td>
<td>---------------------------------</td>
</tr>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td><strong>Social Services</strong></td>
<td></td>
</tr>
<tr>
<td>Education (with school meals and milk)</td>
<td></td>
</tr>
<tr>
<td>Basic ...</td>
<td>1,459.0</td>
</tr>
<tr>
<td>Additional ...</td>
<td>-</td>
</tr>
<tr>
<td>Health and welfare (with welfare foods)</td>
<td></td>
</tr>
<tr>
<td>Basic ...</td>
<td>1,237.5</td>
</tr>
<tr>
<td>Additional ...</td>
<td>-</td>
</tr>
<tr>
<td>Child care ...</td>
<td>41.3</td>
</tr>
<tr>
<td>Benefits and assistance (including family allowances)</td>
<td></td>
</tr>
<tr>
<td>Basic ...</td>
<td>2,120.1</td>
</tr>
<tr>
<td>Additional ...</td>
<td>-</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>4,857.9</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Miscellaneous</strong></td>
<td></td>
</tr>
<tr>
<td>Administrative and miscellaneous services ...</td>
<td>437.3</td>
</tr>
<tr>
<td>Contingency allowance ...</td>
<td>-</td>
</tr>
<tr>
<td>Adjustments:</td>
<td></td>
</tr>
<tr>
<td>Northern Ireland expenditure</td>
<td>235.9</td>
</tr>
<tr>
<td>Statistical ...</td>
<td>-39.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>633.8</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total, excluding investment of nationalised industries, etc.</strong></td>
<td></td>
</tr>
<tr>
<td>Investment of nationalised industries</td>
<td>10,800.7</td>
</tr>
<tr>
<td>Investment of B.B.C., I.T.A., and C.G.M.A. ...</td>
<td>1,259.5</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>12,073.1</td>
</tr>
</tbody>
</table>
SUPPORT OF EXTERNAL POLICY

Defence Budget

### TABLE 7

**Public Expenditure in the Defence Budget**

<table>
<thead>
<tr>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964 Survey</td>
</tr>
<tr>
<td>2,073.0</td>
</tr>
</tbody>
</table>

2. In accordance with Ministerial decisions it is proposed to contain defence expenditure at £2,000 million at Survey 1964 prices (equivalent to £2,075 million at Survey 1965 prices). A major review is being undertaken of our defence policies to see how this can be achieved. Notwithstanding the absence of any guidance so far regarding possible options leading to a limitation of the Defence Budget it has been considered necessary to construct figures of expenditure to accord with the proposed level for 1969-70.

3. The defence figures given in Table 7 are therefore purely illustrative of the level of expenditure which might be reached, on the assumption that the target of £2,075 million is achieved by 1969-70.

Other Defence Expenditure

### TABLE 8

**Public Expenditure on Defence (other than Defence Budget)**

<table>
<thead>
<tr>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964 Survey</td>
</tr>
<tr>
<td>Allied services</td>
</tr>
<tr>
<td>Civil defence</td>
</tr>
<tr>
<td>Overseas military aid</td>
</tr>
<tr>
<td>Miscellaneous*</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

* The figures for 1964-65 and 1965-66 reflect large fluctuations in the net figure resulting from transactions on Purchasing (Repayment) Services Votes. The figure of −£35 million for 1965-66 includes a reduction of £35 million for the cancellation of the TSR 2.

† The minus sign denotes receipts.

4. This includes expenditure on allied services, civil defence and overseas military aid. Expenditure on allied services (which covers provision for accommodation, stationery and civil superannuation) for the defence departments is the largest single item, accounting for more than £60 million in each year during the period.

5. The review of the form of civil defence preparations, mentioned in paragraph 200 of this year's statement on the Defence Estimates, has not been completed in time to permit definite forecasts of civil defence expenditure in future years to be yet made. For the purposes of this report a tentative forecast has been made of £19 million per annum for each of the years 1966-67 to 1969-70.
6. Also included in this block of expenditure is provision for military aid to overseas countries. The figures cover disbursements in future years of grants and loans already offered, together with certain continuing liabilities for assistance in colonial territories and elsewhere. The total falls from £29.2 million in 1965–66 to £8.2 million in 1969–70 in respect of existing commitments. A further £1.4 million has been included in 1969–70 for new proposals. Any unforeseen emergencies in this category will be met from the contingency allowance (see paragraph 18 of the report). The principles on which the United Kingdom gives military aid are about to be reviewed by a Ministerial committee.

Aid programme

<table>
<thead>
<tr>
<th>TABLE 9</th>
<th>Public Expenditure on Aid: Basic Programme</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ million at Survey 1965 prices</td>
<td></td>
</tr>
<tr>
<td>180.7</td>
<td>191.7</td>
</tr>
</tbody>
</table>

7. The figure of £228.5 million included for 1969–70 is designed to maintain in that year the same ratio between total expenditure on the aid programme and G.N.P. as was achieved in 1964–65, on the assumption that over the six-year period 1964–70 G.N.P. will increase by 22½ per cent. Over the five-year period 1964–65 to 1969–70 the rate of growth of expenditure allowed for is 19.2 per cent.

<table>
<thead>
<tr>
<th>TABLE 10</th>
<th>Public Expenditure on Aid: Basic and Additional Programmes</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ million at Survey 1965 prices</td>
<td></td>
</tr>
<tr>
<td>1964 Survey</td>
<td>1965 Survey</td>
</tr>
<tr>
<td>Basic programme</td>
<td>180.7</td>
</tr>
<tr>
<td>Additional programme</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>180.7</td>
</tr>
</tbody>
</table>

8. The additional expenditure is for the expansion of the aid programme.
Other overseas expenditure

**TABLE 11**

Public Expenditure on Other Overseas Services

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>Overseas representation and information ... ... ... ...</td>
<td>72.1</td>
</tr>
<tr>
<td>Other external relations ... ...</td>
<td>25.6</td>
</tr>
<tr>
<td>Total ... ... ...</td>
<td>97.7</td>
</tr>
</tbody>
</table>

9. This includes expenditure on overseas representation, overseas information and payments to international organisations.

10. Expenditure on overseas representation and overseas information is currently about £77 million a year and is projected to rise to about £89 million in 1969-70. This includes some items of expenditure which have not been agreed.

11. The remaining items consist of payments to international organisations and miscellaneous expenditure.
### Roads: Public Expenditure on Roads: Basic Programme

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>New construction and major improvements</td>
<td></td>
</tr>
<tr>
<td>Major roads</td>
<td>183.0</td>
</tr>
<tr>
<td>Non-grant-aided road works, road lighting, car parks, etc.</td>
<td>28.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>211.4</td>
</tr>
<tr>
<td><strong>of which:</strong></td>
<td></td>
</tr>
<tr>
<td>England</td>
<td>770.7</td>
</tr>
<tr>
<td>Scotland</td>
<td>25.2</td>
</tr>
<tr>
<td>Wales</td>
<td>15.5</td>
</tr>
<tr>
<td>Maintenance and minor improvements</td>
<td></td>
</tr>
<tr>
<td>Major roads</td>
<td>115.2</td>
</tr>
<tr>
<td>Non-grant-aided road works, road lighting, car parks, etc.</td>
<td>76.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>191.5</td>
</tr>
<tr>
<td><strong>of which:</strong></td>
<td></td>
</tr>
<tr>
<td>England</td>
<td>156.8</td>
</tr>
<tr>
<td>Scotland</td>
<td>21.3</td>
</tr>
<tr>
<td>Wales</td>
<td>13.4</td>
</tr>
<tr>
<td>Departmental administration</td>
<td>2.8</td>
</tr>
<tr>
<td><strong>Total public expenditure</strong></td>
<td>405.7</td>
</tr>
<tr>
<td><strong>of which:</strong></td>
<td></td>
</tr>
<tr>
<td>England</td>
<td>330.0</td>
</tr>
<tr>
<td>Scotland</td>
<td>46.8</td>
</tr>
<tr>
<td>Wales</td>
<td>28.9</td>
</tr>
</tbody>
</table>

12. Total expenditure on roads embraces three main items:
   
   (a) the road programme, which comprises new construction and major improvements of major roads, i.e., motorways, trunk roads and classified roads. (This programme was approved by the previous Government for the five years up to and including 1969-70; it is now being reviewed and recommendations on a new five-year programme up to 1970-71 are being prepared);

   (b) other new construction—unclassified roads, road lighting, car parks, etc.;

   (c) maintenance and minor improvements; this in turn can be subdivided into maintenance of major roads and other maintenance.

   Only part of the field of expenditure covered by items (b) and (c) is grant-aided, and it is therefore less closely controllable and capable of being forecast than the road programme proper.

13. As agreed by Ministers, it was arranged that the Departments concerned would draw up a basic programme covering total expenditure on roads for 1969-70 representing a 40 per cent increase over the 1964-65 level. For the purpose of this base year figure the estimate of £397.2 million was taken from the 1964 Survey. A 40 per cent increase on this figure indicated a total of just under £560 million for 1969-70. This was just enough to cover the approved road...
programme for that year plus the estimates of other roads expenditure for the latest year covered by the 1964 Survey, i.e., the year 1968-69, before taking account of price changes. In other words this formula made no allowance for a continuing rise in other roads expenditure beyond 1968-69 but embraced all expenditure covered by plans or projections which were known at the time of the 1964 Survey.

14. After taking account of price changes and other adjustments, the resulting total of roads expenditure which appears in this report as the basic programme for 1969-70 is just under £575 million. The difference between this and the previously quoted figure of £560 million is accounted for by an addition of £37.1 million to cover estimated price increases (and a small further addition of £2 million to cover the inclusion of the Road Research Laboratory in these figures for the first time) partly offset by the elimination of a sum of £24 million of loan charges ("imputed rents"—see Appendix III) which was formerly attributed to maintenance and minor improvements. But for this purely technical change, the cost of the basic programme at the latest available prices would be just over £599 million.

15. Within these total figures, it is the road programme (new construction) which accounts for the bulk of the increase, rising from £164 million in 1964-65 to £296 million in 1969-70 before price adjustments, and by a further £30.6 million net (to £327 million) if price changes and other factors are taken into account. The reason for this adjustment of over 10 per cent is that the road programme approved by the previous Government was drawn up on the basis of 1962 prices; new price index figures showing changes in road construction costs up to 1964 have only recently become available. It has been agreed between the Treasury and the Departments concerned that the adoption of these figures for the purpose of calculating the cost of the basic programme does not prejudge the decisions to be taken by Ministers on this programme. For all other road expenditure an increase in price levels of only 2½ per cent since the last Survey has been allowed in this report, involving only a further £6.5 million.

16. It is expected that about 480 miles of new motorways and about 370 miles of new trunk roads will be completed between 1965-66 and 1969-70. Most of the new trunk roads will be at least to dual two-lane, but some to dual three-lane carriageway standard.

17. The bulk of the expenditure on classified roads is concentrated in the towns, where the relief of congestion rather than the construction of new mileage is the aim; and meaningful figures in terms of mileages cannot therefore be given.

18. Included, for completion in the basic programme up to 1969-70 are 50 classified road schemes, costing over £1 million each, and some 485 schemes costing between £100,000 and £1 million each.

### Table 13

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>--------------------</td>
<td>-------------</td>
</tr>
<tr>
<td>Basic programme</td>
<td>405.7</td>
</tr>
<tr>
<td></td>
<td>464.4</td>
</tr>
<tr>
<td></td>
<td>542.9</td>
</tr>
<tr>
<td>Additional programme</td>
<td>4-8</td>
</tr>
<tr>
<td></td>
<td>16-2</td>
</tr>
<tr>
<td>Total</td>
<td>405.7</td>
</tr>
<tr>
<td></td>
<td>469.2</td>
</tr>
<tr>
<td></td>
<td>559.1</td>
</tr>
</tbody>
</table>

19. The additional programmes proposed for roads expenditure involve amounts rising from £4.8 million in 1966-67 to £30 million in 1969-70.
20. Only part of this expenditure relates to the road programme proper, in the sense of new construction (and major improvements) of motorways, trunk roads and classified roads. For the earlier part of the period under discussion the basic programme falls a little short of the road programme figures approved last year plus the extra amount required to maintain the value of the programme in real terms. The reason for this is that, even if it is decided to allow extra expenditure to cover cost increases, there will be a time lag before effect can be given to this decision. The Departments concerned have therefore proposed that these involuntary underspending should be made good in the last two years of the period. This would mainly affect the final year, 1969–70, for which the additional programme would cost £13·9 million.

21. The other main additional programme consists of provision for increased expenditure on car parks by local authorities rising from £1 million in 1966–67 to £15 million in 1969–70. These are highly speculative estimates of the expenditure for which local authorities might seek loan sanction in response to the guidance which has been given to them about the implications of the Buchanan Report so far as car parking in towns is concerned. Whilst the specific plans of most local authorities are not yet known, it is significant to note that the level of loan sanctions in 1965–66 is already running at more than double that for 1964–65 and it is the Government's policy to encourage the construction of more off-street parking facilities.

22. Smaller additional programmes have been included for meeting the whole of the cost (instead of only half) of certain trunk road lighting schemes from the Exchequer; and for setting up testing stations for heavy goods vehicles. Ministers have approved the latter scheme in principle, but the exact timing of its introduction is still open.

### Railways and waterways

#### Table 14

<table>
<thead>
<tr>
<th>Public Expenditure on Railways and Waterways Deficit Grants</th>
</tr>
</thead>
<tbody>
<tr>
<td>£ million at Survey 1965 prices</td>
</tr>
</tbody>
</table>
| British Railways ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ... ...
Agricultural support

TABLE 15
Public Expenditure on Agricultural Support

£ million at Survey 1965 prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1964 Survey</td>
<td>316.4</td>
<td>292.6</td>
<td>291.2</td>
<td>291.2</td>
<td>291.2</td>
<td>291.2</td>
</tr>
</tbody>
</table>

26. The cost of agricultural support in future years is affected by changes in the level of supplies and in market prices which cannot be forecast with any reasonable degree of accuracy. Further, it is not possible to forecast the nature or effect of adaptations or modifications in the system of agricultural support which may be made at future Annual Reviews. In these circumstances, the only practical course is to assume forecast figures for agricultural support of the same order as the estimate for 1965–66 adjusted to take account of the conclusions of the 1965 Annual Review.

27. An examination of the development of the agricultural industry is currently taking place which will almost certainly lead to substantial expenditure during the forecast period designed to improve the structural efficiency of agriculture and to make the best use of agricultural resources. It is, however, anticipated that this expenditure will in general form part of the system of agricultural support and accordingly it is deemed to be accommodated within the present forecast.

Other assistance to industry, transport and agriculture

TABLE 16
Public Expenditure on Other Assistance to Industry, Transport and Agriculture

£ million at Survey 1965 prices

<table>
<thead>
<tr>
<th></th>
<th>1964 Survey</th>
<th>1965 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ports</td>
<td>19.0</td>
<td>25.5</td>
</tr>
<tr>
<td>Other transport (excluding roads and railways)</td>
<td>40.2</td>
<td>53.4</td>
</tr>
<tr>
<td>Employment services</td>
<td>34.8</td>
<td>37.8</td>
</tr>
<tr>
<td>Shipbuilding loans</td>
<td>28.7</td>
<td>30.8</td>
</tr>
<tr>
<td>Employment services</td>
<td>76.5</td>
<td>80.0</td>
</tr>
<tr>
<td>of which: Assistance to the aircraft industry</td>
<td>18.1</td>
<td>17.1</td>
</tr>
<tr>
<td>Promotion of local employment</td>
<td>33.0</td>
<td>36.7</td>
</tr>
<tr>
<td>Other</td>
<td>25.4</td>
<td>26.2</td>
</tr>
<tr>
<td>Other services to agriculture, fisheries and forestry</td>
<td>71.3</td>
<td>71.1</td>
</tr>
<tr>
<td>Total</td>
<td>370.5</td>
<td>398.6</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
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<th></th>
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<tbody>
<tr>
<td>1965 Survey</td>
<td>291.2</td>
<td>291.2</td>
<td>291.2</td>
<td>291.2</td>
</tr>
<tr>
<td>Ports</td>
<td>29.6</td>
<td>29.6</td>
<td>31.6</td>
<td>33.4</td>
</tr>
<tr>
<td>Other transport (excluding roads and railways)</td>
<td>60.2</td>
<td>59.8</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment services</td>
<td>43.7</td>
<td>46.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shipbuilding loans</td>
<td>-5.7*</td>
<td>-5.7*</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment services</td>
<td>94.0</td>
<td>113.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>of which: Assistance to the aircraft industry</td>
<td>26.3</td>
<td>26.9</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Promotion of local employment</td>
<td>35.9</td>
<td>50.0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>31.8</td>
<td>36.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other services to agriculture, fisheries and forestry</td>
<td>79.9</td>
<td>80.3</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>323.4</td>
<td>345.9</td>
<td></td>
<td></td>
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</table>

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1969-70</td>
<td>291.2</td>
<td>291.2</td>
<td>291.2</td>
<td>291.2</td>
</tr>
</tbody>
</table>

| Infrastructure expenditure | 117.6 | 125.2 | 118.8 | 125.8 |
| Other expenditure | 152.9 | 163.4 | 185.2 | 197.6 |

* Loan repayment
Ports

28. These forecasts relate to the investment expenditure of ports other than nationalised ports and those wholly owned by production industries for their own use. They are based on information obtained from the port authorities about the schemes they plan to undertake in the next few years and on the interim proposals of the National Ports Council for port development.

29. The substantial increase in capital expenditure arises from the need for extensive modernisation of existing facilities and for the provision of new facilities to provide the capacity required to handle the trade expansion implicit in the basic assumption of the increase in national production.

30. Also included under this heading is some relatively small expenditure on fisheries ports.

Other transport

31. It has been assumed that the British Airports Authority will be set up from 1st April, 1966, and capital investment amounting to £9·2 million in 1968-69 and £6·7 million in 1969-70 has been included under this heading. The remaining expenditure covers miscellaneous transport services including expenditure on road passenger transport by local authorities. Also included here is the Channel Tunnel; even if the project received early approval there would be only relatively small expenditure on construction during the period and a sum of £0·5 million has been included to cover this.

Employment services

32. The increase forecast on employment services is very largely accounted for by the progressive coming into operation of approved schemes for grants and loans to the new Industrial Training Boards. The level of assistance to the Boards will be determined by the extent to which improvements are made in the quality and quantity of training in British industry; and the forecasts assume that every effort will be made to introduce such improvements as quickly as possible.

Shipbuilding loans

33. The forecasts for the shipbuilding loan scheme are based on the assumption that all payments except that for the Q4 will have been completed by 1965-66. The loan of £17·6 million to the Cunard Company for the Q4 is expected to be taken up in 1968-69.

Other industry and trade

34. The basic programme for assistance to the aircraft industry only covers forecasts of expenditure on projects already approved (including the Concord) and contains no allowance for any continuation of such assistance through the approval of further projects.

35. Government policy on location of industry and assistance to local employment is at present under review and there is every expectation that the existing provisions of the Local Employment Act, which expire in 1967, will be modified to a greater or lesser degree in the legislation which succeeds it. Meanwhile, however, the basic programme for this expenditure has been calculated on the assumption that current policies and programmes will be continued with little or no change. Expenditure to 1969-70 has therefore in general been projected at the estimated level for 1966-67, as accurate forecasts of fluctuations in expenditure are not possible; a small increase has, however, been allowed over the period for the provision of Board of Trade factories. It has also been assumed that in 1968-69 and 1969-70 the final part (£2 million) of the loan for the Fort William Pulp and Paper Mill will be drawn.

36. The remaining expenditure under this heading includes expenditure on export promotion in respect of which some allowance has been made for a continued increase in the basic programme.

Other services to agriculture, fisheries and forestry

37. The main items under this heading are the Forestry Commission, for which expenditure of about £32 million has been included for 1969-70, and the
Ministry of Agriculture, Fisheries and Food and the Department of Agriculture and Fisheries for Scotland for which £37 million has been included for 1969-70. The rest of the expenditure is made up of a number of miscellaneous items such as the Development Commission.

38. The figures in Table 16 include provision for the following additional policy developments which have not yet been agreed:

<table>
<thead>
<tr>
<th>Policy Development</th>
<th>Public expenditure in 1969-70 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Assistance to Short Bros. and Harland for diversification</td>
<td>5.0</td>
</tr>
<tr>
<td>2. Assistance to the aircraft industry</td>
<td>5.3</td>
</tr>
<tr>
<td>3. Construction of national exhibition centre</td>
<td>4.0</td>
</tr>
<tr>
<td>4. Assistance to grant-aided bodies for promotion of trade, exports and industrial efficiency</td>
<td>2.4</td>
</tr>
<tr>
<td>5. Extension of N.F.F.C</td>
<td>1.7</td>
</tr>
<tr>
<td>6. Extension of Local Employment Act</td>
<td>15.0</td>
</tr>
<tr>
<td>7. Other</td>
<td>2.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>36.3</strong></td>
</tr>
</tbody>
</table>

Industrial research and Research Councils

**Table 17**

*Public Expenditure on Industrial Research and Research Councils*

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>A.E.A</td>
<td>68.9</td>
</tr>
<tr>
<td>Research Councils, etc</td>
<td>45.7</td>
</tr>
<tr>
<td>Technology</td>
<td>11.5</td>
</tr>
<tr>
<td>Other research</td>
<td>28.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>154.6</td>
</tr>
<tr>
<td><em>of which:</em></td>
<td></td>
</tr>
<tr>
<td>Domestic capital expenditure</td>
<td>25.4</td>
</tr>
<tr>
<td>Other expenditure</td>
<td>129.2</td>
</tr>
</tbody>
</table>

Atomic Energy Authority

39. For the Atomic Energy Authority, the basic programme includes expenditure of about £50 million per annum on research and development (the balance represents imputed rent).

Research Councils and technology

40. As regards expenditure on the Research Councils and technology, the figures simply represent estimates by the Departments of the amounts that they would wish to spend over the period. None of the figures commits either the Treasury or Departments. The figures for expenditure on technology in 1969-70 assume that there will be further legislation to increase the provision for the National Research Development Corporation.
Other research

41. This includes Ministry of Aviation civil research and development, for which the figures cover both committed expenditure, and a number of quite large uncommitted items (e.g., continuation of the initial European Launcher Development Organisation (E.L.D.O.) programme beyond end-1965, future E.L.D.O. programmes, the small satellite launcher and research and development for civil communications satellites). The Ministry of Aviation committed expenditure does not therefore include provision for any major continuing civil space activity, national or international. (The European Organisation for Space Research (E.S.R.O.) and scientific space research are the responsibility of the Science Research Council.)
ENVIRONMENTAL SERVICES

Housing investment

**Table 18**

*Public Expenditure on Housing Investment: Basic Programme*

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>Investment</td>
<td></td>
</tr>
<tr>
<td>England</td>
<td></td>
</tr>
<tr>
<td></td>
<td>424.7*</td>
</tr>
<tr>
<td>England and Wales</td>
<td></td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>94.8</td>
</tr>
<tr>
<td>Wales</td>
<td></td>
</tr>
<tr>
<td></td>
<td>31.6</td>
</tr>
<tr>
<td>Total</td>
<td>519.3</td>
</tr>
</tbody>
</table>

* This figure covers England and Wales.

**England and Wales**

42. The Cabinet have agreed that in 1965 156,000 approvals shall be given for local authority and New Town Corporation housing programmes. This will lead to about 149,000 houses being started in 1965-66 (about 6,000 of them in New Towns) compared with 138,000 houses started in 1964-65. No decisions have yet been taken for future years.

43. The Ministry of Housing and Local Government have proposed that there should be a 5 per cent increase in the local authority programme each year. The Ministry contend that this is in line with the Government's housing policy, and that the total forecast should feature in the basic programme. The Treasury view, which has been taken as the basis for the Table, is that the 1965 level of approvals represents a substantial increase over the 118,000 local authority approvals which formed the basis of the 1964 review (the actual number of approvals eventually given in 1964 was 139,500), and that it would be reasonable to assume a constant level of 150,000 approvals a year for a basic programme, the remainder featuring in an additional programme. The Ministry of Housing are unable to accept this, and the matter remains unresolved. The figures shown in the Table have been supplied by the Ministry of Housing on the understanding that their position is reserved.

44. New Town housing forecasts have been reduced over last year's forecasts for the early years to take account of difficulties—mainly labour shortages—being experienced. The figures represent the level of activity in the 17 New Towns already designated, and the additional programme relates to work in New Towns yet to be designated. It is thought that the rate of activity will increase during the period, and the basic programme assumes that 11,500 houses will be started in the New Towns in 1969-70.

45. The method of assessing the average cost of a dwelling has been changed from that employed hitherto. The Table is based on the average cost of a local authority dwelling in tenders approved during the 12 months ended 30th September, 1964, which represents the estimated expenditure on construction in 1965-66. The figure of £2,897 per house represents an increase of £298 or 10.3 per cent over the corresponding figure of £2,599 for 1964-65.

46. The average cost of a New Town house has been taken as £3,400, an increase of £400 over the figures used last year.

SECRET
Scotland

47. The basic housing programme for local authorities has been drawn up on the basis endorsed by Ministers giving a 10 per cent growth over the period 1964-65 to 1969-70. Taking into account New Towns this gives a forecast of 32,500 starts in 1969-70. The case for the additional programme rests on the need for housing in Scotland, and the ability of local authorities and New Towns to attain a target of 40,000 housing starts during 1969-70.

48. The average cost per dwelling—£3,100 for both local authority and New Town housing—is assessed in the same way as for local authority housing in England and Wales. The cost has increased by £100 since 1964-65.

### Table 19

| Public Expenditure on Housing Investment: Basic and Additional Programmes |
|-----------------------------|---|---|---|---|---|---|
|                            | £ million at Survey 1965 prices |
|                            | 1965 Survey |
| Basic programme            | 519.5   | 571.0   | 592.3   | 617.4   | 622.5   | 626.1   |
| Additional programme       | —       | —       | 20.9    | 46.4    | 78.8    | 105.8   |
| Total                      | 519.5   | 571.0   | 613.2   | 663.8   | 701.3   | 731.9   |

49. The additional programme under this block allows for an increase of 7,500 houses each year in England and Wales from 1965-66 onwards (i.e., 30,000 additional completions in 1969-70). For Scotland, it allows for a programme rising to 7,500 additional houses in 1969-70.

Public and private housing subsidies (including improvement grants)

### Table 20

| Public Expenditure on Housing Subsidies (including Improvement Grants): Basic Programme |
|-----------------------------------------------|---|---|---|---|---|---|
|                                              | £ million at Survey 1965 prices |
|                                              | 1965 Survey |
| Subsidies of which: England and Wales        | 135.7   | 144.5   | 154.7   | 164.0   | 174.8   | 185.9   |
| Scotland                                    | 92.7    | 97.8    | 102.6   | 106.5   | 111.7   | 117.3   |
| Improvement grants                          | 43.0    | 46.7    | 52.1    | 57.5    | 63.1    | 68.6    |
| Total                                       | 17.6    | 19.2    | 22.4    | 25.9    | 25.9    | 25.9    |
| Total                                       | 153.3   | 163.7   | 177.1   | 189.9   | 200.7   | 211.8   |

50. Public subsidies comprise payments by the Housing Departments to local authorities in respect of houses completed and contributions by local
authorities from their Rate Funds to their Housing Revenue Accounts. The increased forecasts reflect the greater number of completions towards the end of the period and the higher average rate of Exchequer subsidy due to increased building of high flats.

51. The number of private houses qualifying for payment of improvement grants from local authorities is expected to increase.

**TABLE 21**

Public Expenditure on Housing Subsidies (including Improvement Grants): Basic and Additional Programmes

<table>
<thead>
<tr>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964 Survey</td>
</tr>
<tr>
<td>Basic programme</td>
</tr>
<tr>
<td>Additional programme</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

52. The Minister of Housing has made proposals for the provision of funds for local authorities at a reduced rate of interest and for a reduced rate of interest on a part of new mortgages taken out by owner-occupiers. These proposals are under discussion.

**Other housing**

**TABLE 22**

Public Expenditure on Other Housing

<table>
<thead>
<tr>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>1964 Survey</td>
</tr>
<tr>
<td>Loans (less repayments) for house purchase</td>
</tr>
<tr>
<td>Advances (less repayments) to Building Societies and Housing Associations</td>
</tr>
<tr>
<td>Departmental administration</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

53. The forecasts for loans made by local authorities for house purchase are on the basis of the expected level for 1965-66 less an increasing deduction in respect of capital repayments.

54. The forecasts for advances reflect the increase in advances by the Housing Corporation under the Housing Act, 1964, offset by a decrease in advances to Housing Associations under the Housing Act, 1961, and repayments of advances made to Building Societies.
### Table 23

**Public Expenditure on Other Environmental Services**

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic capital expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td></td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>40.8</td>
<td>44.5</td>
<td>47.5</td>
<td>48.0</td>
<td>49.5</td>
</tr>
<tr>
<td>Sewerage</td>
<td>66.7</td>
<td>72.4</td>
<td>76.3</td>
<td>79.5</td>
<td>82.6</td>
</tr>
<tr>
<td>Refuse disposal and other public health services</td>
<td>7.6</td>
<td>10.9</td>
<td>11.7</td>
<td>12.0</td>
<td>12.3</td>
</tr>
<tr>
<td>New Towns (excluding housing and sewerage)</td>
<td>12.7</td>
<td>20.0</td>
<td>20.8</td>
<td>20.3</td>
<td>19.1</td>
</tr>
<tr>
<td>Land drainage, water conservation and coast protection</td>
<td>11.2</td>
<td>11.0</td>
<td>12.2</td>
<td>12.2</td>
<td>13.1</td>
</tr>
<tr>
<td>Parks and pleasure grounds, etc.</td>
<td>17.8</td>
<td>21.9</td>
<td>29.1</td>
<td>31.4</td>
<td>32.4</td>
</tr>
<tr>
<td>Town and country planning</td>
<td>35.2</td>
<td>65.8</td>
<td>71.6</td>
<td>78.1</td>
<td>85.1</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>32.8</td>
<td>39.6</td>
<td>45.6</td>
<td>43.3</td>
<td>43.2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>222.8</td>
<td>286.1</td>
<td>314.8</td>
<td>324.8</td>
<td>337.3</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Water</td>
<td>7.9</td>
<td>11.2</td>
<td>12.0</td>
<td>10.5</td>
<td>9.0</td>
</tr>
<tr>
<td>Sewerage</td>
<td>7.0</td>
<td>7.5</td>
<td>9.4</td>
<td>9.8</td>
<td>10.2</td>
</tr>
<tr>
<td>Refuse disposal and other public health services</td>
<td>0.8</td>
<td>1.7</td>
<td>1.7</td>
<td>1.7</td>
<td>1.6</td>
</tr>
<tr>
<td>New Towns (excluding housing and sewerage)</td>
<td>4.8</td>
<td>4.9</td>
<td>5.1</td>
<td>5.2</td>
<td>5.3</td>
</tr>
<tr>
<td>Land drainage, water conservation and coast protection</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.3</td>
<td>0.3</td>
</tr>
<tr>
<td>Parks and pleasure grounds, etc.</td>
<td>1.9</td>
<td>2.4</td>
<td>3.1</td>
<td>3.3</td>
<td>3.8</td>
</tr>
<tr>
<td>Town and country planning</td>
<td>2.9</td>
<td>9.9</td>
<td>10.3</td>
<td>10.3</td>
<td>9.6</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>3.3</td>
<td>5.0</td>
<td>6.0</td>
<td>6.0</td>
<td>5.7</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>30.0</td>
<td>42.9</td>
<td>47.8</td>
<td>47.1</td>
<td>45.5</td>
</tr>
<tr>
<td><strong>Total Great Britain</strong></td>
<td>252.8</td>
<td>329.0</td>
<td>362.6</td>
<td>371.9</td>
<td>382.8</td>
</tr>
<tr>
<td><strong>Other expenditure</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sewerage</td>
<td>56.0</td>
<td>62.5</td>
<td>66.3</td>
<td>70.0</td>
<td>74.1</td>
</tr>
<tr>
<td>Refuse disposal</td>
<td>48.4</td>
<td>52.2</td>
<td>54.8</td>
<td>57.4</td>
<td>59.9</td>
</tr>
<tr>
<td>Other public health services</td>
<td>22.9</td>
<td>24.1</td>
<td>25.2</td>
<td>26.3</td>
<td>27.4</td>
</tr>
<tr>
<td>Land drainage, water conservation and coast protection</td>
<td>13.7</td>
<td>13.2</td>
<td>13.7</td>
<td>14.1</td>
<td>14.5</td>
</tr>
<tr>
<td>Parks, pleasure grounds, etc.</td>
<td>41.1</td>
<td>42.7</td>
<td>44.7</td>
<td>46.1</td>
<td>48.1</td>
</tr>
<tr>
<td>Town and country planning</td>
<td>15.4</td>
<td>16.3</td>
<td>17.4</td>
<td>17.5</td>
<td>18.5</td>
</tr>
<tr>
<td>General administration</td>
<td>48.0</td>
<td>48.0</td>
<td>50.0</td>
<td>50.9</td>
<td>52.9</td>
</tr>
<tr>
<td>Miscellaneous (including general administration)</td>
<td>60.2</td>
<td>65.9</td>
<td>72.9</td>
<td>78.4</td>
<td>85.0</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>271.6</td>
<td>318.3</td>
<td>335.9</td>
<td>354.2</td>
<td>370.8</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sewerage</td>
<td>5.2</td>
<td>5.6</td>
<td>5.9</td>
<td>6.2</td>
<td>6.5</td>
</tr>
<tr>
<td>Refuse disposal</td>
<td>8.6</td>
<td>9.2</td>
<td>9.9</td>
<td>10.3</td>
<td>10.5</td>
</tr>
<tr>
<td>Other public health services</td>
<td>3.0</td>
<td>3.1</td>
<td>3.2</td>
<td>3.3</td>
<td>3.3</td>
</tr>
<tr>
<td>Land drainage, water conservation and coast protection</td>
<td>0.3</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Parks, pleasure grounds, etc.</td>
<td>4.7</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Town and country planning</td>
<td>1.2</td>
<td>1.4</td>
<td>1.7</td>
<td>2.0</td>
<td>2.2</td>
</tr>
<tr>
<td>Miscellaneous (including general administration)</td>
<td>5.3</td>
<td>5.6</td>
<td>5.6</td>
<td>5.6</td>
<td>5.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>28.3</td>
<td>30.5</td>
<td>31.9</td>
<td>33.0</td>
<td>33.7</td>
</tr>
<tr>
<td>Departmental administration</td>
<td>5.8</td>
<td>6.9</td>
<td>7.2</td>
<td>7.9</td>
<td>7.9</td>
</tr>
<tr>
<td><strong>Total Great Britain</strong></td>
<td>305.7</td>
<td>355.7</td>
<td>375.0</td>
<td>395.1</td>
<td>414.2</td>
</tr>
<tr>
<td><strong>Total public expenditure</strong></td>
<td>558.5</td>
<td>684.7</td>
<td>737.6</td>
<td>767.0</td>
<td>795.2</td>
</tr>
</tbody>
</table>

**Note:** All expenditure on these services by the Ministry of Public Building and Works has been included in the figures for England and Wales.

SECRET
Water
55. A constantly increasing demand for water for industrial, agricultural
and domestic purposes has been reflected in recent years in increasing investment
expenditure in water supplies. The forecasts assume a continuation of present
trends.

Sewerage
56. Capital expenditure on sewerage is expected to increase because of the
need to cope with the rapidly rising consumption of water, the increase in difficult
trade effluents requiring treatment, and growing public insistence on purer
effluents, notably as affecting rivers and beaches.

Refuse disposal and other public health services
57. Expenditure in England and Wales is expected to increase because of
the growing shortage of tipping sites, and the use of more plant for refuse disposal.

Water conservation and coast protection
58. Expenditure on coast protection in England and Wales is expected to
continue at about the current level. Expenditure on water conservation by the
river authorities set up under the Water Resources Act, 1963 will begin in 1965-66.
Providing, which was also included in the 1964 review, is made for two major
river regulating schemes commencing in 1966-67.

Parks, pleasure grounds and baths
59. Expenditure under this heading includes provision for additional
facilities for sport.

Town and country planning and miscellaneous
60. An increase in activity in England and Wales over the last year suggests
that the forecasts made last year for expenditure on town and country planning were
too low. In particular, there has been a substantial increase in the purchase by local
authorities of land in advance of requirement.

Police and prisons

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey 1965 Survey</td>
</tr>
<tr>
<td>Domestic capital expenditure</td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td>22.4 20.8 23.4 25.7 27.7 27.7</td>
</tr>
<tr>
<td>Scotland</td>
<td>2.4 2.8 3.1 2.9 2.8 2.9</td>
</tr>
<tr>
<td>Total</td>
<td>24.8 23.6 26.5 28.6 30.5 30.6</td>
</tr>
</tbody>
</table>

| Other expenditure            |                                 |
| Police                       |                                 |
| England and Wales            | 165.1 171.7 178.8 183.5 187.7 192.0 |
| Scotland                     | 17.7 18.2 18.8 19.2 19.7 20.1 |
| Prisons                      |                                 |
| England and Wales            | 20.9 21.7 22.9 23.8 25.0 25.9 |
| Scotland                     | 2.0 2.2 2.2 2.3 2.3 2.4 |
| Total                        | 205.7 213.8 222.7 228.8 234.7 240.4 |
| of which:                    |                                 |
| England and Wales            | 186.0 193.4 201.7 207.3 212.7 217.9 |
| Scotland                     | 19.7 20.4 21.0 21.5 22.0 22.5 |
| Total                        | 230.5 237.4 249.2 257.4 265.2 271.0 |
| of which:                    |                                 |
| England and Wales            | 208.4 214.2 225.1 233.0 240.4 245.6 |
| Scotland                     | 22.1 23.2 24.1 24.4 24.8 25.4 |
England and Wales

61. Expenditure on police arising from existing policies is expected to rise by 21·4 per cent in the period. About 80 per cent of this is on pay, etc. (mostly for police, also for civilian staff); strength is, therefore, the determining factor. An increase in uniformed strength from 80,700 to 94,000 is forecast. Of this increase of 13,300, it is estimated that 4,000 will be obtained as the direct result of the introduction of a scheme to pay incentive allowances in areas of persistent low strength. Civilians, including traffic wardens and cadets, are expected to increase from 20,200 to 28,000. The 1969-70 estimates of strength for uniformed police are higher than the total establishment at present authorised but these are being increased.

62. Expenditure on prisons is expected to increase by 19·2 per cent over the period. The main assumptions underlying the figures are that (a) the prison/borstal population will remain constant but that by the end of the period 1,000 new places will have been provided in detention and remand centres, (b) prison staff will increase by 3,200 mainly for the new establishments for which the building programme provides, but also to implement agreed improvements in conditions of service.

63. Taking police and prisons together, the overall growth rate implied in these developments is 21·1 per cent, i.e., in excess of the target growth of 15 per cent for the block. The figures given for the basic programme in Table 24 represent the 1964-65 figures increased by 15 per cent by 1969-70, plus £6 million for the implementation of the manning-up allowance arrangements, which were agreed after the growth rate was discussed. The remainder required for the implementation of existing policies (£6·7 million in 1969-70) is shown as an additional programme covering police and prisons.

Scotland

64. The forecast provides for expenditure on police to grow by 14·7 per cent; this covers an increase in uniformed strength from 10,347 to 11,250 by 1969-70.

65. The forecast for prisons provides for an increase in expenditure of 16·6 per cent over the period. The underlying assumptions are that (a) although the prison population will remain at about the present level more appropriate accommodation is necessary and the building programme aims ultimately to produce about 380 places for adults and 280 places for young offenders; and (b) prison staffs will increase by about 215, mainly to fill new posts arising from the provision of new institutions.

66. The overall rate of growth for police and prisons together in Scotland is forecast at 15 per cent by 1969-70.

Table 25

Public Expenditure on Police and Prisons: Basic and Additional Programmes

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>Basic programme</td>
<td>230·5</td>
</tr>
<tr>
<td>Additional programme</td>
<td>—</td>
</tr>
<tr>
<td></td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>230·5</td>
</tr>
</tbody>
</table>

* Additional money over and above the Cabinet limit on the basic programme to enable existing policies to be carried out.
67. The total of £18 million for the additional programme in 1969-70 shown in Table 25 includes £6.7 million for expenditure on police and prisons in England and Wales; this is the excess over the provision shown in the basic programme which would be needed to implement existing policies.

68. The remaining expenditure (£11.3 million) included in the additional programme for 1969-70 is shown in detail below:

<table>
<thead>
<tr>
<th>Public Expenditure in 1969-70 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Police: England and Wales</td>
</tr>
<tr>
<td>(i) Lengthening courses at Police Recruitment Training Centres from 13 to 17 weeks ...</td>
</tr>
<tr>
<td>(ii) The provision of residential centres for cadet training ... ... ... ...</td>
</tr>
<tr>
<td>(iii) A computer to provide a national criminal records service ... ... ... ...</td>
</tr>
<tr>
<td>Prisons</td>
</tr>
<tr>
<td>(iv) The Home Office and S.H.H.D. have put forward additional programmes to enable prisoners to be paid wages at industrial rates, from which they would meet the cost of their board and lodging and contribute to the maintenance of their dependants ... ... ... ...</td>
</tr>
<tr>
<td><strong>Total</strong></td>
</tr>
</tbody>
</table>
### Table 26

**Public Expenditure on Education (with School Meals and Milk): Basic Programme**

<table>
<thead>
<tr>
<th></th>
<th>1964 Survey</th>
<th>1965 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic capital expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td>141.9</td>
<td>147.6</td>
</tr>
<tr>
<td>Scotland</td>
<td>21.8</td>
<td>23.6</td>
</tr>
<tr>
<td>Universities (including C.A.T.s)</td>
<td>60.6</td>
<td>76.6</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>224.3</strong></td>
<td><strong>247.8</strong></td>
</tr>
<tr>
<td>Other expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Schools</td>
<td>719.1</td>
<td>750.2</td>
</tr>
<tr>
<td>Further education</td>
<td>125.9</td>
<td>141.7</td>
</tr>
<tr>
<td>Teacher training</td>
<td>43.3</td>
<td>52.3</td>
</tr>
<tr>
<td>Imputed rent</td>
<td>55.4</td>
<td>57.9</td>
</tr>
<tr>
<td>Other expenditure</td>
<td>52.5</td>
<td>60.5</td>
</tr>
<tr>
<td>Departmental administration</td>
<td>5.8</td>
<td>6.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,002.0</strong></td>
<td><strong>1,068.9</strong></td>
</tr>
<tr>
<td>(excluding universities and C.A.T.s)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td>892.6</td>
<td>925.9</td>
</tr>
<tr>
<td>Scotland</td>
<td>116.0</td>
<td>120.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,141.3</strong></td>
<td><strong>1,228.4</strong></td>
</tr>
<tr>
<td>(including universities)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>School meals and milk</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Domestic capital expenditure</td>
<td></td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td>9.6</td>
<td>11.2</td>
</tr>
<tr>
<td>Scotland</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td>Other expenditure</td>
<td>83.8</td>
<td>86.5</td>
</tr>
<tr>
<td>School meals and milk:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td>8.4</td>
<td>9.9</td>
</tr>
<tr>
<td>Scotland</td>
<td>1.2</td>
<td>1.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>93.4</strong></td>
<td><strong>97.7</strong></td>
</tr>
<tr>
<td><strong>Total public expenditure</strong></td>
<td><strong>1,459.0</strong></td>
<td><strong>1,573.9</strong></td>
</tr>
</tbody>
</table>

69. For the education block of expenditure, an increase of 30 per cent between 1964-65 (1964 Survey) and 1969-70 plus expenditure on school meals and milk would give a figure of £1,887.9 million for 1969-70. The figures in Table 26 are based on those submitted by Departments.
Capital expenditure

70. The basic programme assumes building starts for schools and further education at the levels already agreed up to 1966-67—i.e., £84 million a year and £27 million a year, respectively, for England and Wales, and £17 million a year and £7 million a year, respectively, for Scotland. The basic programme also includes an addition in the case of the school-building programmes for the raising of the school-leaving age in 1970-71. For teacher training, starts of £10 million a year in England and Wales are assumed for 1967-68 onwards, and starts of £1.5 million in Scotland (a little over £1 million in 1969-70). The balance needed to carry out existing policies, e.g., in the case of the school-building programme, the balance needed to keep pace with the increased numbers of pupils (including the effects of raising the school-leaving age), appears in the additional programme, together with the amount needed to maintain the present annual rate of replacement of wholly unsatisfactory schools.

71. In the case of the universities, the basic programme takes account of approved building starts up to 1968-69 and assumes a continuance in 1969-70 of the 1968-69 level of £25 million.

Other expenditure

Primary and secondary schools

72. The basic programme assumes that in England and Wales the number of pupils will rise by 10 per cent between 1965-66 and 1969-70 and the teacher force by nearly 17 per cent. The comparable figures for Scotland are 7 per cent and 11 per cent. The effect of this increase in pupils together with an allowance for improvement of standards at the current rates produces an increase in non-teaching costs in schools in Great Britain of 27 per cent.

Further education

73. The basic programme provides for an increase of 42 per cent, in England and Wales, in the number of students doing full-time and sandwich courses at advanced level and of 24 per cent in part-time work. In Scotland there is provision for an increase of 40 per cent in the number of advanced students taking full-time and sandwich courses. The expansion of lower level work in Great Britain generally is assumed to continue on the basis of the policies laid down in the White Papers of 1956 and 1961 as affected by the Report of the Committee on Day Release and by the Industrial Training Act, 1964. For further education as a whole teaching costs and non-teaching costs are expected to rise by 25 per cent and 36 per cent respectively in England and Wales and 43 per cent and 44 per cent respectively in Scotland.

Teacher training

74. In the basic programme it has been assumed that students will increase in number by about 25 per cent in England and Wales in accordance with announced expansion programmes which are in this period roughly commensurate with the expansion to 122,000 places in Great Britain by 1973-74 envisaged in the Robbins report. The increase in Scotland is 33 per cent.

Universities and Colleges of Advanced Technology

75. The basic programme assumes that total student numbers will increase to the planning figures recommended by the Robbins Committee, i.e., 218,000 by 1973-74. The provision for the earlier years is based on the approved quinquennial settlement (to 31st July, 1967) and additions set out in Appendix I to the 1965-66 Estimates (Class VII, 7). Some improvement is assumed in the next quinquennial settlement. The figures also include provision for some expansion of technology.
TABLE 27

Public Expenditure on Education (with School Meals and Milk):
Basic and Additional Programmes

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>Basic programme</td>
<td>1,459-0</td>
</tr>
<tr>
<td>Additional programme</td>
<td>—</td>
</tr>
<tr>
<td>Total</td>
<td>1,459-0</td>
</tr>
</tbody>
</table>

* Includes £0-5 million in respect of the additional programme for school meals and milk.

76. The additional programme consists of a large number of developments, which vary greatly in cost. The following are the most important.

Capital expenditure

77. Expenditure in England and Wales is based on the following additional building starts:

<table>
<thead>
<tr>
<th></th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary and secondary schools</td>
<td>—</td>
</tr>
<tr>
<td>Special schools</td>
<td>—</td>
</tr>
<tr>
<td>Minor works</td>
<td>3.0</td>
</tr>
<tr>
<td>Further education</td>
<td>—</td>
</tr>
<tr>
<td>Teacher training</td>
<td>—</td>
</tr>
<tr>
<td>Universities</td>
<td>3.2</td>
</tr>
<tr>
<td>Youth service</td>
<td>0.5</td>
</tr>
</tbody>
</table>

78. After allowing for the cost of sites, equipment and professional fees, the total additional capital expenditure in 1969-70, including Scotland, amounts to £91 million, of which £20 million is for the universities.

Schools

79. For England and Wales, the basic programme assumes building starts of £84 million a year, and in Scotland £17 million plus some addition for raising the school-leaving age in 1970-71. The additional requirements for primary and secondary major building and for minor works are to provide places which cannot be found in the basic programme for the growing school population and for raising the school-leaving age, and to maintain the present level of expenditure on improving and replacing existing unsatisfactory buildings. In Scotland extra building work of £4 million a year is included from 1966-67 onwards.

Further education

80. The additional provision in further education is to meet the consequences of the Industrial Training Act and to provide for a further 23,000 places in advanced courses to match the expected growth in the number of qualified school leavers; increased grants for adult education are also included.

Teacher training

81. Broadly speaking, the additional programme would allow the present target of 122,000 teacher training places by 1973 to be brought forward to 1970.
**Universities**

82. The additional programme for universities provides for extra building starts of £7 million in 1967–68 and £8 million thereafter and £2 million a year to meet the cost of a planned programme of site acquisition, as a result of current reviews. It also includes provision for the North East Technological University, an increased rate of expansion at the Royal College of Art and the College of Aeronautics and a further expansion of medical education, including another new medical school.

**Other expenditure**

83. This includes the additional current requirements resulting from the extra capital expenditure mentioned above. In addition, the main developments include:

(i) A modest expansion in nursery schools to deal with the urgent problems of slum areas and high flats, at a cost in 1969–70 of £1 million.

(ii) A partial development of the plan to make places at independent schools available to a wider range of pupils, at a cost in 1969–70 of £8 million.

(iii) Additional grants to voluntary schools, at a cost in 1969–70 of £1·6 million.

(iv) Various measures designed to make better use of the existing teaching force and to encourage part-time and longer service in the profession, at a total cost in 1969–70 of £19 million (excluding £4·9 million for pensions).

(v) Various measures designed to increase the supply of teachers, including the introduction of a four-term year in colleges of education and the wider use of part-time training, technical teacher training and in-service training, at a total cost in 1969–70 of approximately £12 million.

(vi) Additional provision for the universities, costing £13 million in 1969–70, including some further improvement to recurrent grants in the quinquennium beginning in 1967–68, and provision for the North-East Technological University and the expansion of medical education.

(vii) A number of miscellaneous developments in the field of recreational, social and physical education, including extending the facilities for training youth leaders, more direct Exchequer assistance to amateur sport and further developments in the facilities for educational research—total cost in 1969–70, £2¼ million.

(viii) £20 million in 1969–70 has also been included as the possible capital and current cost of running the University of the Air on a fourth television channel, assuming a decision to start in 1966–67.
## Table 28

**Public Expenditure on Health and Welfare (with Welfare Foods): Basic Programme**

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
<th>1964 Survey</th>
<th>1965 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic capital expenditure</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hospitals:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>England and Wales</td>
<td></td>
<td>62.7</td>
<td>74.0</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td>9.0</td>
<td>9.9</td>
</tr>
<tr>
<td>Executive Councils:</td>
<td></td>
<td>0.3</td>
<td>0.4</td>
</tr>
<tr>
<td>England and Wales</td>
<td></td>
<td>0.1</td>
<td>0.1</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other central services and grants:</td>
<td></td>
<td>3.1</td>
<td>3.2</td>
</tr>
<tr>
<td>England and Wales</td>
<td></td>
<td>0.4</td>
<td>0.3</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Local health and welfare:</td>
<td></td>
<td>26.5</td>
<td>26.4</td>
</tr>
<tr>
<td>England and Wales</td>
<td></td>
<td>1.1</td>
<td>1.3</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>103.2</td>
<td>115.6</td>
</tr>
<tr>
<td><strong>Other expenditure</strong></td>
<td></td>
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<td></td>
</tr>
<tr>
<td>Hospitals:</td>
<td></td>
<td>665.2</td>
<td>681.1</td>
</tr>
<tr>
<td>Executive Councils:</td>
<td></td>
<td>269.4</td>
<td>307.1</td>
</tr>
<tr>
<td>Other central services and grants:</td>
<td></td>
<td>10.6</td>
<td>11.4</td>
</tr>
<tr>
<td>Local health services:</td>
<td></td>
<td>106.6</td>
<td>111.4</td>
</tr>
<tr>
<td>Local welfare services:</td>
<td></td>
<td>35.6</td>
<td>41.4</td>
</tr>
<tr>
<td>Departmental administration:</td>
<td></td>
<td>7.6</td>
<td>8.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td></td>
<td>1,095.2</td>
<td>1,160.7</td>
</tr>
<tr>
<td><strong>Expenditure on health and welfare</strong></td>
<td></td>
<td>1,198.4</td>
<td>1,276.3</td>
</tr>
<tr>
<td>England and Wales</td>
<td></td>
<td>1,070.8</td>
<td>1,141.5</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td>127.6</td>
<td>134.8</td>
</tr>
<tr>
<td><strong>Welfare foods</strong></td>
<td>Other expenditure:</td>
<td>39.1</td>
<td>40.0</td>
</tr>
<tr>
<td><strong>Total public expenditure</strong></td>
<td></td>
<td>1,237.5</td>
<td>1,316.3</td>
</tr>
<tr>
<td><strong>of which</strong>:</td>
<td>England and Wales:</td>
<td>1,105.6</td>
<td>1,177.2</td>
</tr>
<tr>
<td>Scotland</td>
<td></td>
<td>131.9</td>
<td>139.1</td>
</tr>
</tbody>
</table>

84. The basic forecasts for health and welfare expenditure (other than welfare foods) show an increase of 21.9 per cent over the period 1964-65 to 1969-70, i.e., they are within the target growth rate of 22.5 per cent. Despite divergence between the rates of development for different services, the overall rates of growth for health and welfare in England and Wales and in Scotland are broadly similar.

### Hospitals

85. The assumption in the programme is that hospital current expenditure will grow over the period at 2.5 per cent per annum in England and Wales and at
3 per cent (3½ per cent in 1966–67) per annum in Scotland. The Health Departments consider that growth at these rates will not be sufficient, and accordingly they have included a bid for a higher rate in their additional programmes.

86. The basic programme allows for investment in the hospital service to rise in England and Wales from £74 million in 1965–66 to £94 million in 1969–70. The corresponding figures in Scotland are £9.9 million and £11.9 million.

Executive Council services

87. The total increase forecast for these services in England and Wales is £68 million or 27.9 per cent. The corresponding figures for Scotland are £7 million or 25.7 per cent. Four-fifths of the increase in Great Britain is accounted for by increased expenditure on the pharmaceutical services. Provision is made for the continuation of the trend towards more widespread use of modern expensive drugs and there is a small annual increase reflecting the growth of population, but by far the largest element is the estimated cost of the abolition of prescription charges amounting in all to some £34 million. Of this about £24 million represents the loss of revenue and about a further £10 million a consequential increase in patient demand.

88. For general medical services, no long-term change in the number of doctors giving service is forecast. A modest annual increase in the general expenditure incurred in doctors’ practices has been assumed. The forecast provides also for a sharp increase in the number of ancillary staff which would be expected from implementation of a scheme to reimburse directly to the individual doctor part of the cost of employing such staff; provision is also made for expenditure on improvement grants for premises and on free central provision of sterile syringes. These arrangements are estimated to result in increased expenditure of about £3.5 million by 1969–70. The future development of the service must now, however, depend on the outcome of the negotiations with the medical profession in which alternative arrangements for the reimbursement of ancillary staff costs and for provision of capital are under consideration. The additional expenditure which is likely to be required is forecast as an additional programme.

89. For general dental services, provision is made for an expected increase of 115 to 125 (including 5 to 10 in Scotland) dentists a year in the service and for increasing expenditure (2½ per cent per annum) on practice organisation and equipment. which is expected to help to produce an increase in the average output per dentist. On the supplementary ophthalmic services, the only significant forecast change is a small increase in the use of the service each year.

Local authority health and welfare services

90. The rate of development of local health services in England and Wales, including capital expenditure met from revenue, has been rising to reach 5 per cent to 5½ per cent a year in recent years at constant pay and prices. The forecasts assume that the rate of development will further increase to about 6 per cent a year in 1965–66 and 1966–67 (as allowed for in the General Grant Order, 1964) and to about 6½ per cent a year in the later years covered by the Survey. Corresponding expenditure on the local authority welfare services, the main element being for residential accommodation for the elderly, has also been increasing rapidly, and the forecasts assume a rate of development of rather more than 8 per cent a year in 1965–66 and 1966–67 (as in the General Grant Order, 1964) and of some 7½ per cent a year in the later Survey years.

91. In Scotland, local health services have tended to develop at rather a slower rate than in England, and the increase expected on current expenditure over the period is about 2½ per cent, from £8.3 million to £10.4 million. A faster rate of growth, at about 50 per cent over the period, is forecast for local welfare services where, as in England and Wales, the emphasis is on more residential accommodation for the elderly.

92. The level of local authority investment in the local health and welfare services continues to increase, and the forecasts assume that work done, including that financed out of revenue and special funds, will reach £27.7 million (Great Britain) in 1965–66, mainly as a result of loan sanctions already given, and will rise to £35.3 million by 1969–70.
Welfare foods

93. The increased expenditure is related to the expected rise in the birth rate. If the price of welfare milk to the beneficiary remains unchanged, the increase in the retail price of milk following the recent Farm Price Review will add £1.2 million in Great Britain in a full year.

Table 29
Public Expenditure on Health and Welfare (with Welfare Foods): Basic and Additional Programmes

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic programme</td>
<td>1,237.5 1,316.3 1,361.4 1,409.7 1,456.1 1,504.0</td>
</tr>
<tr>
<td>Additional programme</td>
<td>— — 54.5 59.1 70.4 88.3</td>
</tr>
<tr>
<td>Total</td>
<td>1,237.5 1,316.3 1,415.9 1,468.8 1,526.5 1,592.3</td>
</tr>
</tbody>
</table>

Hospitals

94. The scale of expenditure on hospital building permitted under the definition of basic programme is regarded by the Health Departments as inadequate to improve the rate of replacement of very old hospitals and to provide additional accommodation to meet growing demands. To meet these requirements additional provision is sought during the period under review in England and Wales to the extent of £5 million in 1966-67, £6 million in 1967-68, £8 million in 1968-69 and £13 million in 1969-70. The corresponding figures in Scotland are £0.4 million, £0.5 million, £1.8 million, and £2.8 million. This will involve additional current expenditure most of which will mature in the 1970s.

95. Similarly the rate of development in hospital running costs is held to be inadequate to permit of the orderly development of existing policies and the desired expansion of the capital programme. Accordingly bids to increase the rates above those permitted in the basic programme have been made in England and Wales to the extent of 1/2 per cent in the earlier years rising to 1 per cent by 1969-70. In Scotland an increase of 1/2 per cent is sought from 1967-68 onwards. This would involve additional expenditure of £17.2 million in 1969-70.

General practitioner services

96. Whatever the outcome of the present discussions with the doctors there is no doubt that additional expenditure will be incurred on improving doctors' surgeries and providing ancillary staff. If agreement is reached with them, this will need to be regarded as having a prior claim on additional moneys available for the health and welfare service. It is not possible at this stage to estimate at all closely the extent and particularly the pace of development. The bid assumes that new premises provided by local authorities and Exchequer agencies together with additional Vote-borne running expenditure on these and on new premises built by doctors with borrowed private finance will rise to £6 million by 1969-70 for England and Wales; and further expenditure on ancillary staff and equipment beyond that allowed for in the basic programme will rise to £2 million in 1969-70. Proportional expenditure of £0.8 million in 1969-70 is envisaged for Scotland.

97. Some acceleration in the repayment of compensation to elderly doctors is contemplated. Depending on the formula adopted, this could advance expenditure by £1.7 million in 1966-67 and by £1 million in 1969-70.

98. Although no concrete proposals have been made, improvements to dental practice have been assumed to require an additional £0.6 million a year
by 1969–70. (For this item, and for the items marked with an asterisk below, the Scottish Home and Health Department have submitted additional programme figures totalling £0·5 million in 1969–70.)

Spectacle frames

99. A modest extension of the range of N.H.S. frames available is assumed to cost £1·1 million a year by 1969–70, though if charges for spectacles were abolished the increased demand would raise this figure substantially (see below).

Transport for the disabled

100. The supply of motor cars, instead of tricycles, to N.H.S. patients on the same basis as to war pensioners and other improvements in the conditions would increase the cost by £3·3 million in 1966–67 rising to £6·6 million in 1969–70.

Miscellaneous

101. On the assumption that measles vaccination is adopted as a general policy the cost will be £4 million in 1966–67 falling to £0·7 million in 1969–70.

102. Replacement of the present transistor hearing aids by head-worn aids could entail a capital programme of about £5 million and running costs of £1 million a year. The incidence of this is not certain but an additional cost of £2·2 million a year has been assumed starting in 1966–67.

*103. Additional annual expenditure on health education was contemplated by the Cohen Committee at £0·5 million a year, falling jointly on central and local government.

*104. Additional developments in the local health and welfare field are assumed to include some expenditure on family planning and care of the elderly and are expected to add something of the order of £1 million, possibly rising to £3 million in 1969–70.

Patients charges

105. In addition to the cost of further development of the service, the Health Departments' additional programme contains an item for the cost of further abolition of charges to patients. The cost of abolishing the prescription charges in February 1965 has been included in the basic forecasts. The cost of further abolition will depend on the extent to which it is carried, but the cost for particular items is assumed to rise by 1969–70 to:

<table>
<thead>
<tr>
<th>Item</th>
<th>£ million</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dental treatment</td>
<td>6·7</td>
</tr>
<tr>
<td>Dentures</td>
<td>7·8</td>
</tr>
<tr>
<td>Spectacles</td>
<td>12·0</td>
</tr>
</tbody>
</table>

(The last item would rise to £15·3 million if abolition were accompanied by an extension of choice mentioned under “spectacle frames” above.)

The cost in the intervening years would, of course, depend on the timing of abolition.

106. There is no additional programme for welfare foods.
Child care

TABLE 30

Public Expenditure on Child Care

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>Domestic capital expenditure ...</td>
<td>3.2</td>
</tr>
<tr>
<td>Other expenditure ... ... ... ...</td>
<td>38.1</td>
</tr>
<tr>
<td>Total public expenditure ... ... ... ...</td>
<td>41.3</td>
</tr>
<tr>
<td>of which: England and Wales ...</td>
<td>37.0</td>
</tr>
<tr>
<td>Scotland ... ... ... ...</td>
<td>4.3</td>
</tr>
</tbody>
</table>

107. The forecast reflects the established trend in the number of children committed to the care of local authorities or sent to Approved Schools and Remand Homes. Expenditure is shown as rising by 40.2 per cent in Great Britain in the period covered by the Survey. This provides in England and Wales inter alia for:

(a) the number of field officers to rise from 1,500 to 3,000; and

(b) the output of trained officers to rise to 400 a year by 1967-68 as compared with 240 in 1965-66.

Corresponding increases are also anticipated in Scotland.

108. The figures include provision for the following policy developments which have not yet been agreed:

<table>
<thead>
<tr>
<th>Public Expenditure in 1969-70 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reforming methods of dealing with young offenders ... ... ... ...</td>
</tr>
<tr>
<td>2. Staff increases and training ... ... ... ...</td>
</tr>
<tr>
<td>3. Extension of family services ... ... ... ...</td>
</tr>
<tr>
<td>Total ... ... ... ... ... ... ... ...</td>
</tr>
</tbody>
</table>

In 1967-68 the figures include a sum of £26 million for taking over approved schools from local and voluntary authorities. This has not yet been agreed.
### TABLE 31

**Public Expenditure on Benefits and Assistance (including Family Allowances): Basic Programme**

<table>
<thead>
<tr>
<th>1964 Survey</th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Insurance</td>
<td>1,543.5</td>
</tr>
<tr>
<td>War pensions</td>
<td>152.2</td>
</tr>
<tr>
<td>Non-contributory old-age pensions</td>
<td>5.2</td>
</tr>
<tr>
<td>National assistance</td>
<td>220.5</td>
</tr>
<tr>
<td>Total benefits, etc.</td>
<td>1,885.4</td>
</tr>
<tr>
<td>Administration</td>
<td>87.0</td>
</tr>
<tr>
<td>Total</td>
<td>1,972.4</td>
</tr>
<tr>
<td>Family allowances</td>
<td>147.7</td>
</tr>
<tr>
<td>of which: Grants</td>
<td>143.5</td>
</tr>
<tr>
<td>Administration</td>
<td>4.2</td>
</tr>
<tr>
<td>Total public expenditure</td>
<td>2,120.1</td>
</tr>
</tbody>
</table>

For an explanation of the method of revaluation see paragraph 4, Appendix III.

109. The Government’s Election Manifesto included a pledge that “existing National Insurance benefits will be raised and thereafter linked to average earnings so that as earnings rise so too will benefits”. For calculating the trend of future expenditure, it has been assumed that:

(a) the benefits and assistance rates introduced in 1965 will be increased by 3.6 per cent on 1st April, 1966, and each subsequent year, which is the expected rate of increase of real earnings per head corresponding to the assumed growth of the Gross Domestic Product of 25 per cent between 1964 and 1970;

(b) the rate of unemployment in Great Britain will remain stable at 1.5 per cent in 1966-67 and subsequent years;

(c) wage-related unemployment benefit will be introduced in the autumn of 1966 at an approximate cost of £20 million in the first full year (1967-68), adjusted in subsequent years to take account of earnings increases.

110. Even if there were to be no further change in the rates of benefit introduced in 1965, total expenditure (including administration costs) for the block comprising national insurance benefits, national assistance, war pensions and family allowances would continue to rise throughout the period, mainly because of the increasing number of retirement pensions, and by 1969-70 it would be £154 million higher than in 1965-66.

111. Provision has been made in the above figure for the normal trend of an annual increase in the number of national assistance recipients arising from an ageing population. There are, however, substantial numbers of old people who might have an entitlement to national assistance but who, for a variety of reasons, do not apply. The impact of an impending special publicity drive directed towards overcoming this reluctance cannot be forecast with any accuracy. Further provision has, however, been made in the years 1966-67 onwards for the additional growth which might result.
112. For the years 1966-67 to 1969-70 it has been assumed that there will be no change in the level of rents payable to people receiving national assistance. It is possible, however, that during this period, rents may increase faster than prices. It is not possible to quantify the difference in terms of national assistance expenditure. But, for illustrative purposes, it may be assumed that for each 0.1 per cent per annum by which rent increases exceed the assumed average rate of price increases, the additional national assistance expenditure would be approximately £0.1 million per annum.

Table 32

Public Expenditure on Benefits and Assistance (including Family Allowances): Basic and Additional Programmes

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td>Basic programme</td>
<td>2,120-1 2,378-6 2,490-6 2,611-2 2,730-5 2,860-2</td>
</tr>
<tr>
<td>Additional programme</td>
<td>—        92-5 185-0 185-0 185-0</td>
</tr>
<tr>
<td>Total</td>
<td>2,120-1 2,378-6 2,583-1 2,796-2 2,915-5 3,045-2</td>
</tr>
</tbody>
</table>

113. At the present early stage of the Government's social security review, it is not possible to give detailed estimates of the cost of the main projects not covered by the basic programme. The following is, however, a general account of the proposals put forward by the Department but not yet considered by Ministers collectively:

(a) Wage-related sickness benefit. Proposals are being prepared, for the Social Services Committee, for introducing wage-related sickness benefit in autumn 1966 (along with its counterpart, wage-related unemployment benefit, which is included in the basic programme). The cost (allowing for some saving on national assistance and additional administration costs) might be of the order of £30 million a year by 1969-70.

(b) Income guarantee. The Election Manifesto committed the Government to the early introduction of an income guarantee scheme. Plans are being prepared for a scheme which might begin next year. It might be possible to make a modest start at a net additional cost (allowing for saving on national assistance) of something like £100 million a year—and perhaps to maintain the scheme within much the same order of cost up to 1969-70—assuming, among other things, that the guaranteed income for those covered (persons over minimum retirement age only) would be no more than a few shillings a week above national assistance levels.

(c) National insurance revision. Any major revision of the national insurance scheme consequent upon the current review would be unlikely to make a substantial impact on costs by 1969-70. But some interim reform of widows' benefits may be needed—within a net cost of up to, say, £20 million a year—including possibly an allowance, for the initial period of widowhood, related to the husband's earnings.

(d) Other improvements. As in the past, minor improvements will be found necessary from time to time to meet particular problems. They are not likely to have any substantial bearing on the amount of total expenditure.
expenditure under the schemes—but might represent, say, £10 million a year by 1969–70. Examples of possible improvements are:

(i) the proposals now being considered by Ministers for giving further help totalling rather more than £1 million a year to workmen injured before 1948 with entitlement under the former Workmen’s Compensation Acts;

(ii) any extra cost resulting from changes in the national assistance scale rates and their relativities now being studied by the National Assistance Board, or from making adjustments in the national assistance provisions upon the introduction of an Income Guarantee.

(e) Family Allowances. In view of the substantial cost, it will probably not be possible to give a very high priority to the thorough reorganisation of family allowances promised in the Election Manifesto; the most modest proposals for allowances to increase with the child’s age could hardly cost less than £40 million a year. It may, however, be necessary to make some interim improvement to help the larger families. It is not possible to predict what form this would take but, by way of illustration, the cost of doubling the allowances for the fourth and subsequent children in the family (to make them £1) would be about £25 million a year in 1969–70 (allowing for some saving on national assistance).

114. The following table brings together the illustrative figures quoted above:

<table>
<thead>
<tr>
<th>Public Expenditure in 1969–70 (£ million)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wage-related sickness benefit</td>
</tr>
<tr>
<td>Income guarantee</td>
</tr>
<tr>
<td>Widows’ benefits</td>
</tr>
<tr>
<td>Family allowances</td>
</tr>
<tr>
<td>Contingency allowance for other improvements</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

For the purpose of Table 32 the cost of the additional programme in 1969–70 and each of the two preceding years has been taken as £185 million which is the total of the above illustrative figures; and for 1966–67 a half-year’s expenditure at the same rate has been included. In advance of detailed decisions on the various proposals and their timing, no precise estimates of cost can be given.
### Table 33

**Public Expenditure on Administrative and Miscellaneous Services**

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>Domestic capital expenditure</td>
<td></td>
</tr>
<tr>
<td>Government buildings, etc.</td>
<td>21.4</td>
</tr>
<tr>
<td>Land Commission</td>
<td>—</td>
</tr>
<tr>
<td>Other</td>
<td>34.0</td>
</tr>
<tr>
<td>Total</td>
<td>55.4</td>
</tr>
<tr>
<td>Other expenditure</td>
<td></td>
</tr>
<tr>
<td>Tax collection</td>
<td>107.0</td>
</tr>
<tr>
<td>Other financial administration</td>
<td>19.8</td>
</tr>
<tr>
<td>Common services</td>
<td>86.6</td>
</tr>
<tr>
<td>Land Commission</td>
<td>—</td>
</tr>
<tr>
<td>Parliament, Law Courts, etc.</td>
<td>46.7</td>
</tr>
<tr>
<td>Fire services</td>
<td>43.2</td>
</tr>
<tr>
<td>Libraries, museums and arts</td>
<td>39.4</td>
</tr>
<tr>
<td>Miscellaneous services</td>
<td>45.2</td>
</tr>
<tr>
<td>Total</td>
<td>381.7</td>
</tr>
<tr>
<td>Total public expenditure</td>
<td>437.3</td>
</tr>
</tbody>
</table>

**Parliament, Law Courts, etc.**

115. The forecast provides for an increase in expenditure of 33·3 per cent over the period for England and Wales. (There will be a corresponding increase in income from fines, etc.) Provision is made for the number of Probation Officers to increase from 2,250 to 3,500 and for the number of criminal cases in which legal aid is granted to increase from 21,000 to 32,000 in England and Wales. There are corresponding increases for Scotland.

**Fire services**

116. For England and Wales an increase in operational strengths of 800 a year has been assumed in the light of current recruitment trends. Provision is also made for additional civilian staff mainly for fire prevention work. These increases largely account for the increased expenditure of 25·9 per cent over the period. In Scotland the increase over the period is 28·3 per cent and allows for an increase of about 100 per year in operational strengths and for an increase in civilian staff.

**Libraries, museums and arts**

117. Forecasts of expenditure by local authorities in England and Wales on local libraries and museums, rising to about £54 million in 1969–70, assume an improvement in standards of the public library service consequent upon the Public Libraries and Museums Act, 1964. In Scotland where similar considerations apply, such expenditure is estimated to rise to £2·5 million in 1969–70.
118. For the arts an increase in expenditure is forecast; this is no more than a projection of current trends. There is no way in which a precise financial assessment can be made of the policy foreshadowed in the White Paper, "A Policy for the Arts—The First Steps" (Cmnd. 2601).

**Land Commission**

119. The figures include expenditure of £29 million in 1969–70 relating to net expenditure on land acquisition, Crownhold building costs and administrative expenses in respect of the proposed Land Commission.
TABLE 34

Adjustments

<table>
<thead>
<tr>
<th></th>
<th>£ million at Survey 1965 prices</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>1964 Survey</td>
</tr>
<tr>
<td>Northern Ireland</td>
<td>...</td>
</tr>
<tr>
<td>Sales of fixed assets</td>
<td>-31.7</td>
</tr>
<tr>
<td>Balancing item</td>
<td>1.3</td>
</tr>
<tr>
<td>Total</td>
<td>196.5</td>
</tr>
</tbody>
</table>

120. For national accounting purposes figures of Gross National Product and of expenditure on this product include Northern Ireland. The figures for individual headings in this report exclude expenditure by the public sector of Northern Ireland and an overall adjustment has to be made for this. It covers expenditure by the central government, local authorities and public corporations in Northern Ireland. The figures take into account the revised expenditure programmes arising from the Wilson Report.

121. Sales of fixed assets are not deducted from the figures of public expenditure shown against individual headings of this report and hence an overall deduction is included here to bring the total of public expenditure on the same basis as statistics of national expenditure. The figure for other sales represents a similar adjustment in respect of certain miscellaneous Extra-Exchequer Receipts which are regarded as an offset to public consumption expenditure but which cannot be easily allocated to individual headings. The balancing item is an adjustment required to reconcile the figures submitted by Departments with those used for national accounting purposes because of differences, which it has not been possible to eliminate in time for this report, arising from differences in the sources of information which have been used.
### Table 35

**Public Investment of Nationalised Industries, etc.**

<table>
<thead>
<tr>
<th>Nationalised industries</th>
<th>£ million at Survey 1965 prices</th>
<th>1964 Survey</th>
<th>1965 Survey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nationalised industries</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>National Coal Board</td>
<td>87·6</td>
<td>95·8</td>
<td>95·8</td>
</tr>
<tr>
<td>Gas Council</td>
<td>85·0</td>
<td>117·0</td>
<td>133·0</td>
</tr>
<tr>
<td>Electricity Council</td>
<td>623·0</td>
<td>674·0</td>
<td>711·0</td>
</tr>
<tr>
<td>South of Scotland Electric Board</td>
<td>43·8</td>
<td>56·3</td>
<td>47·5</td>
</tr>
<tr>
<td>North of Scotland Hydro-Electric Board</td>
<td>19·7</td>
<td>14·6</td>
<td>10·9</td>
</tr>
<tr>
<td>British European Airways</td>
<td>British Overseas Airways</td>
<td>18·2</td>
<td>20·9</td>
</tr>
<tr>
<td>Corporation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporation</td>
<td>33·6</td>
<td>14·8</td>
<td>6·6</td>
</tr>
<tr>
<td>British Railways Board</td>
<td>119·0</td>
<td>127·0</td>
<td>126·0</td>
</tr>
<tr>
<td>London Transport Board</td>
<td>22·2</td>
<td>21·8</td>
<td>22·2</td>
</tr>
<tr>
<td>British Transport Docks Board</td>
<td>5·1</td>
<td>8·6</td>
<td>13·2</td>
</tr>
<tr>
<td>British Waterways Board</td>
<td>1·2</td>
<td>1·2</td>
<td>1·2</td>
</tr>
<tr>
<td>Transport Holding Company</td>
<td>15·6</td>
<td>20·8</td>
<td>21·0</td>
</tr>
<tr>
<td>Post Office</td>
<td>185·5</td>
<td>207·0</td>
<td>243·3</td>
</tr>
<tr>
<td>Total</td>
<td>1,259·5</td>
<td>1,379·8</td>
<td>1,444·3</td>
</tr>
</tbody>
</table>

### Other public corporations

| British Broadcasting Corporation | 11·1 | 11·0 | 13·0 | 16·5 | 10·4 | 9·9 |
| Independent Television Authority | 1·8  | 1·4  | 0·9  | 1·5  | 1·7  | 1·9 |
| Covent Garden Market Authority   | —    | 2·0  | 7·0  | 9·0  | 9·0  | 9·0 |
| Total                             | 12·9 | 14·4 | 20·9 | 27·0 | 21·1 | 20·8 |

Total nationalised industries etc. | 1,272·4 | 1,394·2 | 1,465·2 | 1,518·9 | 1,476·7 | 1,479·9 |

122. These are the figures submitted by the Departments concerned. At this stage they are still under discussion between the Treasury, D.E.A. and Departments.
APPENDIX III

METHODOLOGY

Definition of expenditure

In order that the figures of public expenditure set out in this report can be analysed in terms of the demand made on national resources, and to enable them to be fitted in with statistics of national income and expenditure covering the whole economy, expenditure has to be measured strictly in accordance with the methods, sources and definitions used by the Central Statistical Office in compiling the accounts of the public sector as part of the more embracing system of national accounts. The composition of total public expenditure in terms of economic categories is set out in Table 47 of the 1964 Blue Book on National Income and Expenditure together with the receipts of the public sector which finance the expenditure. At the back of the 1964 Blue Book there is a table providing figures of past expenditure classified in the ways used for surveys of future expenditure. The figures in this report are an extension of these on a constant price basis.

Price basis

2. The constant price basis used for figures for each heading in this report is designed to show the change in expenditure from year to year after discounting any effect which price changes may have on the amount of money to be spent or the amount of work that can be done.

3. Figures for current expenditure on goods and services are as nearly as possible on the same price basis as the 1965-66 Budget Estimates. Figures for capital expenditure are mostly at March, 1965 prices. In some cases, however (e.g., roads and education), it has not been possible accurately to assess prices for March, 1965, and it has then been necessary to use the price basis currently in use for planning purposes. Payments such as grants and loans to industry, subsidies and overseas aid which do not involve the direct purchase of goods and services are measured in terms of current levels of prices, not anticipated future prices.

4. The treatment of figures for benefits and assistance is designed to show the change of expenditure from year to year, if there is removed from changes in rates of benefit, as and when these take place, the element that can be attributed to price changes since the date of the last change. Between April-May 1963 and March, 1965 the increase in retail prices was 5-7 per cent and this has been taken as the element attributable to price changes in the alteration of rates of benefit taking effect from April, 1965. The figures of benefits and assistance for 1964-65 have been reworked by applying in place of the actual rates for that year rates of benefit 5-7 per cent higher. The resultant figures for 1964-65 of expenditure “at Survey 1965 prices” when compared with the figures of expenditure for 1965-66 show the change brought about partly by changes in numbers and partly by changes in the real value of the rate of benefit being applied. The figures for the years after 1965-66 show the change in expenditure resulting from the same two factors, on the basis (adopted to reveal the trend) that rates of benefit are changed year by year (instead of at intervals of two to three years as has been the practice) and for the increase in rates of benefit apart from the effect of price changes will be in line with the increase in average real earnings per head.

5. Where, as in the case of family allowances, there has been no change in the rate of benefit, no adjustment is made. Although the real value of the benefit is being depreciated by the rise in prices, there is nothing in the change in the amount of money being provided from year to year that can be attributed to the effect of prices changes. No adjustment is needed to obtain figures of expenditure “at constant prices”. The constant price concept, it should be understood, is not the same as the concept of “expenditure in real terms”. For the latter it would be appropriate to adjust all expenditure by an index of the change in the purchasing power of money, whether or not rates of benefit were changed.

6. Figures on the basis just described are referred to as “at Survey 1965 prices”. It must be remembered that this price basis is appropriate for comparing the increase in public expenditure in one year with another, and for relating the growth of the total to the agreed maximum increase of 4½ per cent a year. It is not
appropriate when calculating the proportion of total public expenditure to the Gross Domestic Product and assessing the tax implications. For these purposes an assessment has to be made of the effect of future price changes on the amount of money needed. Figures on this basis are referred to as “at current prices”, i.e., at the prices current in each year in question.

**Pay increases**

7. The definition of “constant prices” used in this report means that no account is taken (even in the figures of additional programmes) of possible increases in wages or salaries, regardless of whether such increases are contemplated merely to keep the recipients’ incomes at the same relative level compared with other wage and salary-earners or to improve their relative position (in order, for example, to promote recruitment). Although proposals for increases of the latter kind do not affect expenditure at constant prices, they involve an increased proportion of the Gross Domestic Product being taken by the public sector and higher taxation.

**Imputed rent**

8. To be in accordance with national accounting definitions, the figures of current expenditure include, in some cases, an allowance for what is called “imputed rent” to measure the value of the use made of publicly-owned fixed capital assets in providing public services. These assets are treated as part of the resources available to the economy, whether or not they yield a monetary return, and the use of them is treated as part of expenditure on the national product just as much as the use of fixed assets for which a cash rent has to be paid.

9. The methods of calculating imputed rent have this year been changed in three respects:

(i) for hospitals, where nothing formerly was included, rateable values are now used;

(ii) for local authority education buildings, where formerly loan charges were used, rateable values are now used; and

(iii) for roads, where loan charges were formerly used, the attempt to measure imputed rent has been abandoned.
CABINET

PUBLIC SCHOOLS: FINANCIAL IMPLICATIONS

Memorandum by the Secretary of State for Education and Science

I understand that objections may be made to my paper C. (65) 88 on grounds of cost. I therefore add this brief note.

TIMETABLE

2. The decision not to go ahead this spring will in effect put us back a year. The timetable would now look something like this.

November, 1965: Announce Commission and name of Chairman

Early, 1966: Set up Commission

1966-1968: Commission at work, including pilot schemes

Early, 1968: Commission reports; it is by then too late to implement the Report in September, 1968

September, 1969: We begin to implement major integration plan

There could thus be no major cost to public funds until 1969-70.

COST

3. (a) Interim period while Commission is sitting

The Commission itself might cost £55,000 per annum; pilot schemes might cost £135,000 in the first year and £335,000 in the second. I would find these trivial sums, if necessary, out of my Basic programme.

(b) 1969/70: first real phase of integration

We must make some commonsense assumptions as to what we may decide to do. Let us assume that we start off by taking 50 per cent of the boarding entry in the Public Schools as defined in my S.S.S. (65) 17. (This does not necessarily imply that the schools retain their present
character - they could become boarding Sixth Form Colleges or Junior Colleges or anything else. The cost in 1969/70 would then be of the order of £2 million and in 1970/71 £4.3 million (assuming free tuition and a parental means test for boarding).

(c) The ultimate cost would depend upon our policy decisions. The maximum possible cost would be £23.6 million if we eventually took up all boarding places. This assumes the Governing Bodies would be content to look after the fabric etc. out of trust funds. This all falls to be decided three years from now; we could of course decide to do nothing.

COMMENTS

4. I would add these general comments.

(a) Once Cabinet agrees a policy in principle, and once the Treasury has allocated a global sum to a spending Minister, that Minister presumably has some freedom so to distribute his global sum as to carry out that policy.

(b) We are in danger of getting the public expenditure problem out of perspective. Certainly we must be ruthless and stringent in this immediate period of economic difficulty. But to sacrifice basic socialist principles for a few million pounds which cannot fall due for at least four years would suggest a certain lack of faith in our economic policies.

(c) We are, after all, a rich country on a long-run view; and taxation takes an unusually low proportion of G.N.P. - 29 per cent as compared with Sweden and France (36 per cent), West Germany and Norway (35 per cent) and Netherlands (32 per cent).

C.A.R.C.

Department of Education and Science, W.1.

9th July, 1965
CABINET

LAND COMMISSION; BETTERMENT LEVY
AND CAPITAL GAINS TAX

Memorandum by the Chancellor of the Exchequer

The proposals put forward by the Minister of Land for a progressive betterment levy appear to proceed on the assumption that development value is to be taken out of the capital gains tax and subjected only to the betterment levy.

2. I regret that I cannot agree with this assumption. We have presented the capital gains tax as a comprehensive tax which applies to every sort of capital gain and we have particularly stressed the case for taxing gains arising from the passive ownership of capital. Development value is the prime example of such gains, and it ought to contribute to the ordinary tax revenues of the Exchequer like other gains. We shall be accused of not knowing our own minds if, having brought it within the capital gains tax we now take it out again.

3. The levy is intended to recover for the community some proportion of development value. We can still have a respectable rate of levy (say 30 per cent) with a capital gains tax. Charging development value to levy, notwithstanding its liability to capital gains tax, brings out clearly that it is a special type of gain which ought to bear something extra, beyond the ordinary taxation to which all gains are now subjected.

4. Taking development value out of a capital gains tax means withdrawing reliefs which we have given in the Finance Bill.

(a) There would be a clear breach of faith with the owner-occupier; his development value would pay the same as any one else's. The Minister has suggested that he will still have enough to buy another house; but this is not the point. My promise to the owner-occupier has been unqualified; there has never been any suggestion of limiting it to people who are buying another house. The House has set great store by this exemption and we have now extended it to include houses provided for a dependant.

(b) The same point arises on the alternative basis of charge to capital gains tax under which a small man may pay on one half of the gain at his regular rates of tax instead of the flat rate of 30 per cent. My original proposals, which were less favourable, were extended to meet criticism in the House. These extensions reflect the importance which the House, including our own supporters, attaches to shading the charge for small people. How can we now render them valueless?
5. I have also carefully limited the capital gains tax to gains arising after Budget Day so as to avoid any possibility of retrospection; there are special provisions in the Finance Bill for establishing the Budget Day value of land with a development value. The betterment levy as I understand it, will not be limited in this way. This may be acceptable so long as the levy is a special sort of charge and not a tax; but if (so far as development value is concerned) it takes the place of the capital gains tax it becomes a tax itself, and a plainly retrospective one. Retrospective taxation is difficult enough to defend at any time, but it becomes quite impossible when it means withdrawing guarantees of non-retrospection which have already been given. It is no answer to say that the levy will not be imposed at the full rate to begin with.

6. I have set out above the points which I regard as of the greatest importance. To exclude development value from the capital gains tax would, to my mind, lay us open to serious and justifiable charges of inconsistency in purpose and of disregard for public pledges. In addition the exclusion of development value from capital gains tax erodes the success of the tax in meeting the purposes for which it was introduced.

7. There are other important objections to this course:

(a) A property-dealing company brings in its receipts from sales of land as a trading receipt and pays income tax - or in future corporation tax - on the net profits. This would have to continue, with levy being allowed as a deduction. A land-owning company on the other hand would pay only levy and would be better off - just when the capital gains tax has been introduced to equate capital gains with income.

(b) Short-term gains are taxable as ordinary income. If development value were taken out of the charge short-term gains would pay at the flat rate of levy only instead of paying income tax and surtax at ordinary rates. The distinction between long-term gains and the short-term gains of the speculator, which we have carefully preserved in the Finance Bill would be abolished. There may not be many cases of short-term gains by surtax payers but when they occur they are well publicised.

(c) There would be a difference between the position of a person who sold land directly and one who sold shares in a land-owning company. The first would pay no capital gains tax on the development value of the land; the second would pay capital gains tax on that part of the increase in the value of the shares which reflected development value less only a contingent liability to levy.

(d) Capital gains tax is to be charged on death, gifts and at a 15-yearly interval on property in discretionary trusts so that gains may not escape tax over a long period by passing from hand to hand unrealised. We have maintained this charge in debate against strong pressure. To exclude development value from tax on these occasions might result in a prolonged deferment of any charge on this one particular form of unrealised asset (e.g. where land is kept off the market for reasons of amenity).
8. The argument has been pressed in the Finance Bill debates that it is wrong to impose two taxes - capital gains tax and estate duty - at the same time. We have firmly resisted this pressure. If the argument is now accepted in relation to levy, which is not even part of the ordinary tax system like estate duty, we can expect the argument to be renewed, and more forcibly, next year.

9. These considerations show the kind of quite unnecessary criticism and difficulties to which we shall expose ourselves if we proceed in the way that has been suggested. When this matter was discussed by some of my colleagues, I was not present and my position was reserved. I must therefore ask seriously that the question should be reconsidered.

L. J. C.

Treasury Chambers, S.W.1.

9th July, 1965